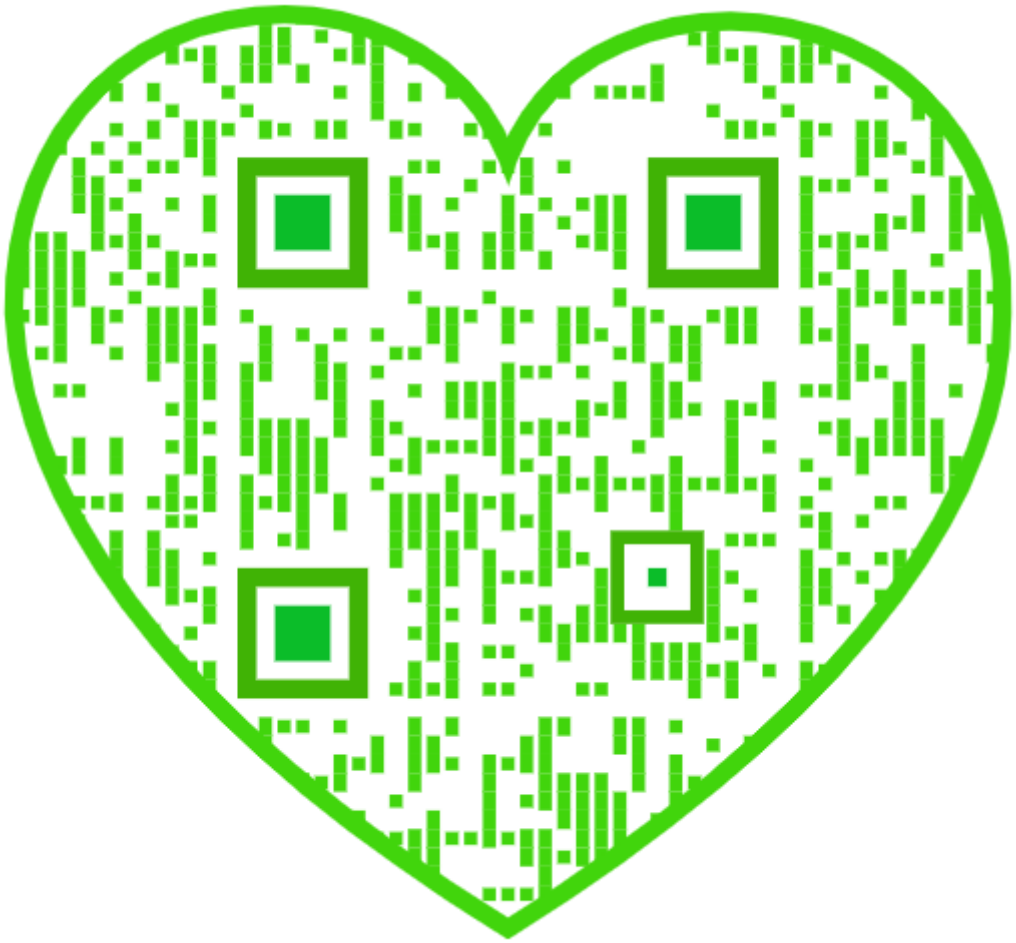

AMERICAN FINANCE.

221

AMERICAN FINANCE

WITH CHAPTERS

ON MONEY AND BANKING.

BY

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PREFACE.

No one will question the need of a systematic treatise on National and State finance. The exercise of more intelligent public economy and more efficient justice are matters of great practical importance with many who feel the burden of taxation. These matters are not less vital to the toiling millions, whose struggle to live has grown fiercer under the withering sun of world-wide competition. Nor is the interest of the moralist and patriot less significant, even though it cannot be measured by the same standards of pain and pleasure that are applied to others.

I have tried to make a book for that large class of readers who, it is believed, are in quest of information presented in an orderly form concerning public expenditures and revenues, money and banking, and know not where to look in any single work. Of course, many articles may be found in magazines, government reports and the publications dealing with particular financial questions, but something more than these is desired.

An explanation may be made concerning the use of references. In a few cases a reference has been given to strengthen the assertion in the text. In other cases references have been added to indicate where more complete sources of readily accessible information may be found, should the reader desire to extend his inquiries. A third

use of references has been made in those cases wherein the current of opinions runs the strongest against the statements made in the text.

The last four chapters, though not within the scope of our definition of Finance, are added because the popular conception of the term is wider, and readers may expect to find some treatment of these matters in the work. The chapter on Money is an introduction to that on Banking, a subject possessing the deepest practical interest to all.

In concluding this preface, it is a pleasure to acknowledge my great indebtedness to Hon. Charles W. Stone, for several years a Member of Congress from the Twenty-seventh District of Pennsylvania, whose unfailing and prompt assistance has been excelled only by his unvarying kindness in rendering it.

CONTENTS.

INTRODUCTION.

CHAPTER I.

Expenditures in General..... 4

CHAPTER II.

National General Expenditure..... 23

CHAPTER III.

National Expenditure for Peace and Defense..... 38

CHAPTER IV.

National Expenditure for Pensions..... 51

CHAPTER V.

National Expenditure for Legislation..... 57

CHAPTER VI.

National Expenditure for Justice..... 60

CHAPTER VII.

National Expenditure for the Indians..... 63

CHAPTER VIII.

National Expenditure for Maintaining Health and Saving Life. 66

CHAPTER IX.

National Expenditure for the Payment of Claims..... 68

CHAPTER X.

National Expenditure for the District of Columbia..... 73

CHAPTER XI.

Justifiable National Expenditure..... 75

CHAPTER XII.
Questionable National Expenditure..... 91

CHAPTER XIII.
Necessary State Expenditure.....108

CHAPTER XIV.
Justifiable State Expenditure.....117

CHAPTER XV.
Questionable State Expenditure.....120

CHAPTER XVI.
Appropriations 131

CHAPTER XVII.
Revenue from Taxation—General Principles.....146

CHAPTER XVIII.
National Revenue from Imports.....160

CHAPTER XIX.
The Collection of Taxes on Imports.....168

CHAPTER XX.
Internal Revenue.....177

CHAPTER XXI.
National Revenue from the Sale of Land.....179

CHAPTER XXII.
National Revenue from Miscellaneous Receipts.....184

CHAPTER XXIII.
State Revenue from Funds.....186

CHAPTER XXIV.
State Revenue from Taxation.....188

CHAPTER XXV.
The Conflict Between State and Local Governments in Taxation.....198

CHAPTER XXVI.

State and National Income Taxation.....203

CHAPTER XXVII.

Money and Coinage.....215

CHAPTER XXVIII.

The National Banking System.....248

CHAPTER XXIX.

Public Debts.....270

CHAPTER XXX.

The Government Deposits.....274

CHAPTER XXXI.

The Government and the Pacific Railroad Indebtedness.....277

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AMERICAN FINANCE.

INTRODUCTION.

1. Different kinds of finance.
2. Finance companies.
3. A banker is not a financier.
4. Public finance is not limited to taxation.
5. Need of studying public expenditure.
6. It lies at the foundation of good government.
7. Greater study of public expenditure.
8. Different points of view of studying public finance.
9. Methods pursued in this work.

1. There are two kinds of finance, public and private. Public finance relates to raising and expending the moneyed resources of a state;[1] private finance to raising and expending money for associations or individuals. A public financier raises money by borrowing or by taxation, and expends the same for a state, city or other municipality. He also suggests plans for borrowing and expending money and for levying and collecting taxes.

2. Of late years finance companies have been formed to raise money for other companies, or for individuals engaged in constructive enterprises. Sometimes the work of construction is also undertaken by them. When this happens they perform the double function of a finance and construction company. This is private finance.

3. A banker is neither a public nor private financier. He raises no money for any purpose and is only a lender. He pays no debts, engages in no constructive enterprises.[2]

4. Public finance has often been confined by writers on finance to taxation. This view of the subject is too narrow. How much money is needed for public use is preliminary to the question of raising it; and even this question is secondary to another. For what purpose ought money to be expended by a state? Unless these questions precede every theoretical or applied system of taxation, and are correctly answered, the system itself will be confused and unsatisfactory.

5. The distribution of taxation, a question of great difficulty, would be less difficult if it were preceded by a thorough inquiry concerning expenditure. We hope to verify the truth of this assertion in the present work.

6. The study of public expenditure is important because it lies at the foundation of better government. To obtain this desirable end we must know more about the objects of expenditure, the reasons for them, who gain by them, and how much.[8]

7. The study of public expenditure is more general and critical than at any former period. This is because taxes are increasing and their burden is more keenly felt. One of the things needed is information concerning public expenditure in a form that can be easily understood. To supply this is to open the way into a most important and fruitful field of inquiry.

8. Public finance may be regarded as descriptive, theoretical and historical. From each of these points of view the subject may be studied. Descriptive finance, to some extent, lies at the foundation of all methods. It is impossible to proceed with pure theories without some knowledge, either real or assumed, of existing finance.

9. The following work will be mainly a description of the expenditures by the national and state governments, and of the means used for collecting money. So far as we shall venture to criticise the present systems of expenditure and taxation, and endeavor to show what ought to be

done, our work will be theoretical. Something will be gained occasionally by reviewing the past. All three methods, therefore, will be used, as the nature of the topics require.

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[1] "The economy which the State must conduct in order to obtain and apply the commodities or services necessary to the proper performance of its functions." E. J. James, in Lalor's Cyclopædia of Political Science, article Finance.

[2] Some companies combine banking and finance.

[3] "Revenue and the expenditure of revenue form by far the most important element in the government of modern nations. Revenue is not, as some one has said, the friction of a government, but rather its motive power. Without it the machinery of a government cannot move, and by it all the movements of a government are regulated. The expenditure of revenue forms the grand level from which all heights and depths of legislative action are measured. The increase and the diminution of the burdens of taxation depend alike upon their relations to this level of expenditures. That level, once given, all other policies must conform to it, and be determined by it. The expenditure of revenue and its distribution, therefore, form the best test of the health, the wisdom and the virtue of a government. Is a government corrupt, that corruption will inevitably, sooner or later, show itself at the door of the treasury in demands for money. There is scarcely a conceivable form of corruption or public wrong that does not at last present itself at the cashier's desk and demand money. The legislature, therefore, that stands at the cashier's desk and watches with Argus eyes the demands for payment over the counter, is most certain to see all the forms of public rascality. At that place, too, we may feel the nation's pulse; we may determine whether it is the delirium of fever or whether the currents of its life are flowing with the steady throbbings of health."—Garfield's speech, House of Rep., Jan. 23, 1872. Works, 2, Vol., 2.

CHAPTER I.

EXPENDITURES IN GENERAL.

1. Functions of government.
2. Public welfare.
3. Too indefinite for a basis.
4. Extension of action by other countries extending.
5. Course of political parties in Great Britain.
6. The granting of pensions as an illustration.
7. Per capita mode of measuring expenditure.
8. Greatest increase is for pensions.
9. Growing increase for rivers and harbors.
10. Growing increase for the navy.
11. Figures do not show what ought to be spent.
12. Comparison of salaries for public and private service.
13. Propriety of thus applying a business standard.
14. Duty of an individual to serve the state.
15. A liberal salary as a moral safeguard.
16. Classification of expenditures.
17. Necessary expenditures.
18. Distinction between these and expenditures for the public welfare.
19. Necessary character of local expenditures.
20. Line between justifiable and necessary expenditures.
21. Postoffice is a justifiable expenditure.
22. The express business.
23. Necessity is a better ground for expenditure than public welfare.
24. Unequal benefits when this line is passed—River and harbor expenditures.
25. Ought the state to attempt to equalize social conditions through taxation?
26. If so, who should be aided.
27. What test shall be applied in making the selection.
28. Does the improper acquisition of wealth justify the state in doing this.
29. It should aid the true owners in recovering their wealth.
30. Money not taken by the state is used by its members.
31. Difference in use between an investor and a spendthrift.

32. The state does not use its income more wisely than its members use theirs.
33. Difference in the modes of use by state and individuals.
34. The comparative length of their disuse of capital.
35. State aid to the needy.
36. Limitation beyond necessary and justifiable expenditure.
37. Later changes in class or special legislation.
38. Growing discontent from increasing appropriations.
39. They should be kept within the smallest limits because the burden is unequally borne.
40. Such expenditures are ineffective as a method of equalizing unlawful wealth.
41. Effective action as a test of limitation.
42. Moral aspect of expenditure.

1. Among political philosophers no chase has ever been more fascinating than the chase to find out the correct functions of government.[1] As no answer has been found commanding permanent or general acceptance, so among the rulers no course of conduct has ever been very consistent. The modern tendency in governing is to widen the functions of the state, especially since the extension of the suffrage.[2]

2. Much of the present legislation is based on public welfare. Broad and indefinable, many are conjuring with the phrase to-day as they never did before. The courts, in trying to set more effective limitations to the phrase, have only succeeded in entangling themselves. On one of these occasions the chief justice of the Court of Appeals of New York admitted that the boundary of legislation in laws of this character was "indistinct," and that no rule or definition could be formulated under which in all cases it could be readily determined whether a statute did or did not transgress the fundamental law. If judges can find no distinct boundary, what may be expected of legislators who are intent on using legislation chiefly as a means for attaining personal or party ends?

3. It may be urged, to lessen the fear of walking by this dim, deceptive light, that the constitution must not be made too rigid, that the people must have room to expand.

The constitution must indeed be something more than a mere piece of mechanism, a code of unbending rules. If the people grow, so must the constitution under which they live. Yet we must be careful in expanding not to risk unduly what we have. Surely the need exists of checking, to some extent, the current of state action from becoming strong enough to sweep away the barriers that protect the rights of individuals.[3]

4. In other countries as well as our own legislators have been widening the circuit of state action, and for the same reasons: First, in response to the general belief that the public will be benefited and is therefore desirous of having the state undertake such action; secondly, as a party measure to catch votes; lastly, for a personal end, to strengthen the power of those who have the disposal of the offices thus created, and indirectly the conduct of them.[4] These three strata, of varying strength and thickness, form the foundation of the modern extension of state functions, and also, to a considerable extent, of the larger expenditures incurred for the older and unquestioned functions of the state.

5. The most curious thing about this movement in Great Britain is that the Liberal party, which, half a century ago, led in the new crusade for restoring man's rights, is leading, though the other is following not far behind. That consummate party leader, Disraeli, as soon as he had risen to leadership, taught his followers how to catch the newly enfranchised voter by adopting the tactics of his opponents and promising still more.[5] And since his day the party fishermen have been more active than ever, while the dominant party always keeps a goodly quantity of tempting bait on hand in the form of unfinished legislation.[6]

6. A more specific illustration may be given. During the Civil War many, opposed to the cause of the Union, were very free in their utterances. The friends of the Union were denounced, especially the soldier and sailor.

Since 1862 a system of pensions, established for their benefit, has grown into marvelous proportions. The hope of winning voters has been a strong stimulus with many a cultivator in this field of legislation. During the debate in Congress on one of these measures a most notorious opponent to the cause of the Union, the Union soldier and all his works, rose to the following height of patriotic agony: "No government can afford to higgle with its preservers over the price of their blood; nor is it a becoming thing to thrust a contemptible statute of limitations, the last resort of a dishonest debtor, into the faces of the maimed who are living or of the widows and orphans of the dead, in full payment of the most sacred obligations ever incurred by a nation in the history of the world." No member on the other side could beat this. As experience has clearly shown that voters do not long remember whence legislative rewards come, perhaps the time is not far off when all parties will admit the uselessness of longer using personal and class legislation as a means for gaining and retaining ascendency.

7. The most common mode of measuring expenditure is the per capita one. Measured by this, national expenditures have been rapidly increasing. In 1830, excluding payments on the principal and interest of the public debt, they were $1.03; in 1840, $1.42; in 1850, $1.71; in 1860, $2.01; in 1870, $8.03; in 1880, $5.34; in 1890, $5.07; in 1891, $5.71; in 1892, $5.27; in 1893, $5.73; in 1894, $5.37; in 1895, $5.10; in 1896, $4.94; in 1897, $5.55; in 1898, $6.46; in 1899, $8.29.[7a]

8. The greatest increase has been for pensions. The sum thus expended for 1896 was $139,434,000. In 1861 the amount paid for pensions was $1,072,461, which had increased at the close of the war to $8,525,153. Five years afterward, in 1870, the amount was $27,780,811. For nine years longer the annual amount paid did not go beyond $33,780,526. But the next year, 1880, the figures rose to $57,240,540, and in 1890 to $106,493,890. Three

years afterward the figures were $161,774,282, then slowly receded, but are again rising, and will be doubtless largely swelled by payments to the sufferers by the Spanish war.

9. Another rapidly increasing expense is for improving rivers and harbors, as the following figures show:

	1889.	1890.	1891.	1892.	1893.	1894.
Harbors	$3,257,101	$3,571,983	$3,490,163	$4,473,678	$4,067,120	$6,806,316
Rivers	7,951,196	8,165,455	8,760,465	8,543,530	10,732,716	13,081,046
	1895.	1896.	1897.	1898.	1899.	1900.
Harbors	$7,233,625	$5,519,234	$4,769,797	$5,678,778	$4,541,686	$5,975,169
Rivers	12,663,928	12,585,142	8,912,906	15,106,272	11,540,855	12,743,695

10. Another increasing expenditure is for sea coast defense and for building ships:

	1872.	1875.	1880.	1885.	1890.	1891.
Forts	$1,540,747	$1,128,980	$154,660	$593,845	$467,786	$676,466
Ordnance	1,867,655	2,261,452	1,865,541	1,721,229	2,673,984	2,869,618
Increase of navy	4,199,599	4,214,336	1,532,626	1,975,981	6,831,803	10,609,197
			1892.	1893.	1894.	1895.
Forts			$878,562	$839,732	$361,934	$220,799
Ordnance			4,694,947	4,827,733	5,162,243	3,989,169
Increase of navy			13,756,500	15,030,227	16,199,259	13,182,134
		1896.	1897.	1898.	1899.	1900.
Forts		$189,499	$375,384	$774,589	$1,315,096	$532,363
Ordnance		4,605,866	7,702,888	10,786,775	19,396,664	10,724,781
Increase of navy		9,453,002	14,539,911	10,753,388	10,277,217	14,398,254

11. These figures throw no light on the question, What ought to be spent and what obtained in the way of security, justice and general comfort for the expenditure? But they do show how rapidly national expenditure is increasing.

12. Perhaps a better mode of measuring public expenditure is to compare the sums paid to employees with the sums paid by private employers for similar services.[8] Those employed in the classified service are divided into eleven classes. Those in

Class A receive any amount less than $270.
Class B, $720 to less than $840.
Class C, $840 to less than $900 .

Class D, $900 to less than $1,000.
Class E, $1,000 to less than $1,200.
Class 1, $1,200 to less than $1,400.
Class 2, $1,400 to less than $1,600.
Class 3, $1,600 to less than $1,800.
Class 4, $1,800 to less than $2,000.
Class 5, $2,000 to less than $2,500.
Class 6, $2,500 or more.

For those who fill the higher places the reward is indeed small enough (too small in many cases), when they are competent and perform their duties. For those below, the compensation is certainly much higher than they would receive from other employers for similar services. It will not, we think, be questioned that a clerk who receives $1,800 in a public position is more skillful or competent than one receiving $1,200 in a bank or counting-room in New York, Philadelphia or Chicago. While he was cursed with the fear, or rather the certainty, that his position was insecure, he may have been justified in demanding, and the government in paying, more than ought to be demanded and paid now that his tenure of office is permanent. But since the adoption of civil service rules, why should the government pay higher prices than individuals or private companies pay for services of a similar character? If this test were applied, it would clearly appear that the government is paying a much higher compensation than is paid outside.

3. Again, it is maintained that the state ought to pay liberal salaries because it is undignified and small to apply the ordinary business standard in compensating servants of the state. Public offices may be divided into two classes: the higher, to which some honor is attached; the lower which are respectable and can be easily filled, but which are without special honor. To officers of the latter class we know of no reason why the same rules should

not be applied as corporations or individuals apply to their employees. For those holding the higher positions, as honor is the reward in part for the services rendered, they ought not to expect to receive as much as other persons holding high positions of a less public or honorable nature.

14. In the olden time it was thought, too, that one had some duty to perform for the state. Does this no longer exist? If it does, ought a high official to expect that his compensation will be gauged solely by its money value?

15. It is sometimes said that all employees ought to be liberally paid to keep them from temptation. Of course, all should be paid a sufficient remuneration, which, if wisely used, would support them in a comfortable manner. To prevent catastrophes springing from an insufficient remuneration, the same principles should be applied by government as are applied by corporations and individuals in rewarding their servants.

16. A better comprehension of our expenditures can be gained by dividing them into three classes—necessary, justifiable and questionable. Thus classified, it is not difficult to determine what expenditures are necessary. It is not so easy to separate the rest into the second and third classes.

17. A public expenditure incurred from necessity, or which is clearly justifiable, because incurred in performing a service generally and unquestionably desired, like the management of the postoffice, rests on a sounder basis than many of the expenditures based on public welfare. It is difficult to imagine a law, not positively wrong, that does not yield some benefits. Whisky is often used in improper ways, yet many derive great benefit from its production. Persons are employed in the distilleries, farmers find a market for their grain, and, in turn, employ to produce it others who are thus enabled to earn means of buying clothing and food. Indeed, the chain of benefits continues until one is lost in his search for a begin-

ning. In like manner, in performing almost every public service, some persons are benefited, others are injured. What are the general results? They are conflicting. But no such results follow expenditures for defense and justice. There may be inefficiency, wastefulness or fraud in making them, causing dissatisfaction; but the necessity of the objects for which they were made is not questioned.

18. The inquiry may be raised: Is not an expenditure incurred from necessity or for the general welfare the same thing? A necessary expenditure is for the general welfare, but an expenditure for the general welfare may not be necessary. A necessary expenditure is for the welfare of every member of government; all are benefited and in the same way. The building of a railroad may promote the general welfare; but those who live near the line will profit by it far more than those who live far away. This is true of many undertakings based on the general welfare. The effective administration of justice and maintenance of defense is for the good of all, man and woman, old and young. Furthermore, a necessary expenditure is an indispensable condition of maintaining government; an expenditure based on the general welfare may not be.

19. Again, as we draw closer to local government, expenditures partake more of a necessary character. Whatever may be said concerning corrupt methods of governing, nearly every object of local expenditure is necessary for the security and health of the people and the transaction of business.

20. The line between questionable and justifiable expenditures cannot always be clearly drawn. Ought the national government, for example, to undertake a land or geological survey within the limits of a state? Is not this a local function, not a national one? Ought not such work to be confined to the lands belonging to the United States?' Again, a service, questionable at one time, may

be justifiable at another—after a state has attained greater efficiency. The national government, for example, may in time employ men so permanently as to be justified in undertaking the telegraphic service; surely it would hardly be justified in undertaking this service under existing conditions.[10]

21. The postoffice is a good illustration of a justifiable service. The need is not so great as the need of defending the country and administering justice. If there were no public postoffices the people would contrive another way for sending their letters and periodicals. It is generally believed that the state can serve the people more efficiently than companies formed for this purpose; and if the state can, it is justified in undertaking the service. Amid such a network of states personal or corporate efficiency might be impaired by public restrictions; the national government is powerful enough to protect the service from state interference. But if it is justified in carrying the mails, it cannot justly perform this service on the contributive principle, and compel those who receive no benefit to pay in part for the benefit of those who neither send nor receive mail matter.

22. Would the national government be justified in engaging in the express business? Not now, but it may be justified, by and by, in undertaking this service.

23. Necessity, rather than public welfare, is a more rational and satisfactory test of expenditure, because the former can be more easily, intelligently and justly applied. All are helped. There is no question concerning the need of defending the state and administering justice. When this line is passed, while many may be benefited by an expenditure, others will just as surely suffer. The river and harbor bill is a familiar illustration. However great may be the general benefit, a special benefit accrues to the locality where an expenditure is made. Though its river or harbor may not be deeper, labor has gained something

by getting employment. The special benefit is so obvious that there is always strong opposition to such a bill.[10a]

24. How, then, is it passed? Every one knows—by granting enough special appropriations to different places to insure the support of those who represent them. If nine millions' worth of "pork" is to be appropriated or distributed, it must be divided and subdivided until enough get a portion to form a majority of the distributing body. Every river and harbor bill bears unquestionable proofs of its numerous creators.[11]

25. Many, however, contend that laborers are helped by expending money to improve rivers and harbors, erect public buildings, supervise the conduct of corporations and the like, while the people from whom the means is temporarily taken to pay them do not suffer, and in the end get back their money. And this assertion is fortified with another, that the people who thus pay ought to do more than they otherwise would to maintain others. Does this contention, constantly made, justify the state in with-

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[10a] Rep. Catchings, of Miss., in his defence of the appropriations for the Mississippi River levees during the debate on the River and Harbor Bill of 1901, said: "While those who own the plantations in the Mississippi Valley are primarily benefited by this levee construction, ultimately many others are benefited as well. There is not a city in this country which does not find many of its most valuable purchasers in this great valley. * * * What they produce and sell constitutes a very large part of the exports of this country and helps to maintain the balance of trade." (34 Cong. Record, 1165.) All this is perfectly true, but one of the radical defects of the argument is the benefit resulting from this expenditure, however widely diffused, is so imperfectly and inadequately related to the individuals who pay for it.

[11] Mr. Breckenridge, of Kentucky, remarked during the debate in 1890 on the river and harbor bill, reported for that year that the committee had been exceedingly industrious, and had his sincerest admiration for the skillful attempt which had been made by its members to compromise existing difficulties, and to make a bill that was as honest as they could afford to make it, and have it pass the House. 21 Cong. Rec. 5401. See article, River and Harbor Bills, E. R. Johnson, 2 Ann. of Am. Acad. 782.

drawing money from some of its members for the use of others?

26. If the state ought to support persons, if this be a just basis for taxation, then the initial question is, Who should be the recipients of a public bounty, and on what principles should they be selected? We know how the selections are made, except as far as a reformed service has prescribed definite rules for regulating employment. They are chosen as a recognition of their service in promoting the success, either directly or indirectly, of the appointing power.

27. Leaving, then, the actual method of selection, and groping around for a correct principle to apply, shall we adopt that of choosing the fittest for the service they are to perform? If so, doubtless those would be selected who are the most competent to earn their own living without the aid of the state. Shall the least competent be chosen? If so, in many cases they would be the least worthy, although for their unworthiness the state is not responsible. Neither of these principles will serve as a proper or safe guide.

28. Can a correct principle be more easily found for withdrawing a part of the income or profits of wealth to pay those chosen? The justification of this rests on the assumptions: Either that wealth is improperly acquired; or, if not, that it is improperly used; or again, that the state can use it more wisely or more justly than its possessor. These assumptions, from whatever side they may be examined, are fallacious.

29. The first assumption, so often heard, furnishes no just basis for taxation. Obviously, if wealth is unjustly acquired, the state should assist its true owners in recovering it. For the state to take it indirectly from wrongful possessors and give it to others is quite as bad as for the state to take property directly from rightful owners and give it to others. By such action rightful owners are deprived of their wealth by the state, whose primary duty

is precisely the opposite—to administer justice, to restore property unlawfully taken.

30. Again, the world's wealth is employed by its owners. If the state did not draw money from its members, they would use it themselves, and in so doing would employ labor. Every owner of wealth is using it, and will continue to do so as long as he can get any profit or pleasure in so doing.

31. The investing capitalist, of whom so much has been harshly said, uses his wealth quite as actively as other persons. Indeed, he is far-sighted in employing his means. In truth, he is the person against whom the least criticism of this nature can be intelligently directed. The slightest analysis is sufficient to prove this assertion. It is true that his manner of using wealth is perhaps not so conspicuous to many as the spendthrift's manner; nevertheless, he expends his wealth far more intelligently and just as actively. The spendthrift uses his income in many of the most expensive ways known to modern society. At the end of the year, what residuum is left for his expenditure? So far as he is concerned, the remembrance of a pleasant time; still later, the more vivid remembrance of shattered health; yet, from his point of view, he has had his money's worth. What shall be said of his servants and others indirectly employed in ministering to his pleasure? They also have had a good living; some of them, perhaps, have kept a portion of their earnings; others have spent all to supply their daily wants. Let us turn back to the capitalist. Suppose he has not employed directly a person save a servant or two who have kept his house. He has lent his money to others, but to whom? To persons engaged in production and exchange, to house-builders, for example. They, in turn (supposing that the income of each was the same), have furnished work to quite as many as the spendthrift has employed. We may fairly suppose that the persons employed with the money of the capitalist were paid as good wages and

fared as well in every way as those employed by the spendthrift. But what, in the end, is the result? In the capitalist's case there is a permanent creation; in the other, nothing save the remembrance of the good time. Will not every one say that from every point of view the expenditure was much wiser in the capitalist's case than in the other?

32. The assumption that unless money was drawn from the people to make public expenditures it would otherwise not be used is worthless. Nor is the assumption any sounder that the state acts more wisely in making expenditures than individuals would act in making them. It is true that the state might use the money drawn from taxpayers more wisely than spendthrifts use theirs. But in the majority of cases money is used far more wisely by individuals than by the state.

33. If owners were permitted to keep their money, the chief differences between their use of it and its present use by the state would be in the selection and remuneration of persons employed. As many and as worthy men would doubtless be employed by individuals as are employed by the state.

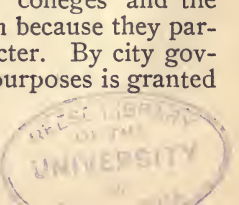
34. At times capital is disused, either through lack of avenues for its employment or through some other cause, but only for short seasons. Generally, capital is promptly used and to its fullest extent; consequently the state cannot justify itself in seizing it on the ground of inability or unwillingness of its owners to use it themselves.

35. It is true that the state is justified by public opinion in getting, by taxation, the means to support those who cannot maintain themselves. In times of unusual depression it is also justified in making desirable expenditures, which would be delayed or perhaps never undertaken, to give the people employment. Necker had the streets of Paris paved that the people might get the means to buy food. Such an expenditure, as far as possible,

should be local rather than national, as it can be more economically made, and employment be more surely given to the needy and deserving. This use of funds is along the danger line, and should be limited to special occasions of unusual need.[12]

36. Passing beyond the limits of necessary and justifiable expenditure, what practical limitations can be set up? If a "protective" tariff is enacted, for example, ought not the government to look after our commerce, our farming, our mining and all other interests? In a rough sort of way the government is doing this, but one of the difficulties lies in the fact that the way is so rough and imperfect. The government has been putting its long and sympathetic, if not always effective, arm around many interests. It has been proposed lately that a department of mining should be established, with a chief acting as a member of the Cabinet.[13] Some newspapers, friendly to protection, are opposed to this. How can they be and preserve their consistency? Is not the mining interest just as deserving of public recognition as manufacturing, commerce or agriculture? If the business world and foreign governments are persecuting silver miners, as many of them assert, ought not the government, to preserve a consistent policy, to fly to their relief?

37. During the last forty years there have been marked changes both in destroying and continuing class legislation. By enacting general laws for the creation of corporations special privileges have been effectually cut off. Some of the newer state constitutions forbid all kinds of special legislation. On the other hand, especially by the national government, many claims are annually paid, lands are granted, appropriations for so-called improvements are made that are personal or local. By state legislatures appropriations are made for hospitals, colleges and the like, which cause no little dissatisfaction because they partake largely or wholly of a local character. By city governments the use of streets for special purposes is granted



without payment of the privilege, or an inadequate sum is paid, causing constant just criticism.[14]

38. As no government, especially of late years, has followed a well-defined course, a condition of unrest has developed which will spread until more consistency is observed. No government can continue to aid some classes and ignore others without spreading dissatisfaction. It cannot impose a duty on imports for "protective" purposes and compel the silver producer to pay them without converting him into a bitter enemy unless he is protected in return. Every expenditure for a class, whether that class be few or many, arouses the opposition of other classes not benefited, or benefited in less degree.

39. No one complains over the principle on which expenditures for the national defense and foreign intercourse and justice are founded, because all are benefited and in equal degree, man, woman and child. But expenditures that are primarily made for the larger or more especial benefit of individuals, sections, classes, do not rest on such firm ground. And these are very numerous and increasing. Some of them are worthy of public, but not national assistance. If the people of Boston desire a public library, it is quite right for them to have it if they are willing to pay the cost, but it would be a very wrong thing to require the people of the entire State to pay the bill. If the planters along the Mississippi desire to have the levees built to protect their lands from overflow, it is surely right for them to co-operate in building them, and also for the localities, cities, towns, counties, States through which they pass, to lend assistance. If it be said that the National Government ought to aid, too, because there is a general benefit accruing to all, the answer, we think, is complete, that such expenditures are primarily made for the larger special benefit of the land owners, and the general benefit to the people is by no means equal to or commensurate with the tax imposed on them

for the outlay. In truth, the return to them, if there be any at all, is very unequal and bearing no possible definable proportion to the burden which they, through their ignorance and weakness, are consequently compelled to endure.

40. Many urge as a defense of large public expenditures, regardless of their character, that this is a way to recover a part of ill-gotten fortunes. Without stopping to show the weakness of the defense (for evidently those who have strongest claims to unjustly acquired wealth are its true owners, and not the public), the hard fact is that the sharpers are the very class who are the most successful in escaping the largest share of their burdens. If they have but little conscience in their methods of getting wealth, they have still less in preventing the public from taking it from them in the form of taxation. The taxes are contributed in larger proportions to income, value of property or other basis by those who have the most regard for law and conscience. As an equalizing or puniatory measure large public expenditure is a complete failure. As the burden is so unjustly laid and collected (and no knowledge is more familiar), the state ought to lessen its unjust procedure until it is able to adopt and enforce a system of taxation according more nearly with the principles of justice.

41. A good working rule for governmental expenditure is, after making necessary ones, to go only as far as the government can act more efficiently than the people can act for themselves. If this is a correct principle, then some states or municipalities would be justified in undertaking expenditures that other states or municipalities would not be. For example, would a city be justified in establishing gas works, lighting the streets and supplying light to individuals? Certainly not, if the works were likely to be so inefficiently managed that the cost for lighting would be greater than by private contract.[15] But if the public management was honest and efficient, and

all were better served than they would be by a private company, then the expenditure would be justified. All turns on the honesty and efficiency of the public service. When public morals are low, and little interest is taken in public affairs, and the persons usually selected for public service are inefficient or worthless, such a public body is not justified in stretching its functions beyond the limits of clearly defined needs. In Germany, where civil service prevails, and a very high degree of public efficiency has been attained, the state is doubtless justified in going further in serving the people than it would be here, where public efficiency is much lower.

42. Lastly, a wise economic expenditure of money is less important for the saving of money than for the moral effects of such a policy. A wise economy promotes morality; a spendthrift policy, public or individual, corruption and decay. Expenditure, therefore, has a strong moral aspect, and for this reason ought to have a profound interest for all. The government cannot well play the part of a distributor of wealth. Its efforts thus far in that direction are not hopeful. The evidence of this will appear hereafter.

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[1] "I treat government not as a conscious contrivance, but as a half-instinctive product of the effort which human beings make to ward off from themselves certain evils to which they are exposed. If then you ask, How much government ought we to have? the only answer I can give will be, You not only ought to have, but you infallibly will have, as much government as is necessary for this purpose."—Sir J. S. Seeley, note in Introduction to Political Science, 129.

[2] One of the newer works on political science, with special reference to socialistic and individual theories, is the State to the Individual, by W. S. McKechnie.

[3] In one of the most recent works treating of the functions of the State, Prof. Pulszky remarks: "The tasks of the State decrease in proportion to the spread of culture. But as mankind advances and human interests grow more intense and of a higher order, the sphere of the operative function of the State also continually widens. Nor does it follow that, because individuals or social circles can dispense with the co-operation and with the supplementary help of the State with regard to any certain interest, that there will not arise instead in some

other direction a new sphere of action, which was before unknown, or could not be disclosed. * * * The State to-day effects in some directions but a small portion of what it accomplished in the same field centuries ago. On the other hand, however, it attends also to many other duties which, during preceding periods, were not accounted at all to be interests and tasks of community."—The Theory of Law and Civil Society, 146-169, 279-311.

[4] For a brief annual review of social economic legislation in the United States since 1890, see W. B. Shaw's articles in the "Quarterly Journal of Economics" and Moorfield Storey's instructive address as president of the American Bar Association, 1896, 19 Reports of Proceedings, 179.

[5] Indeed, it may be truly said that the method adopted by the aristocratic party opposed to Gaius Gracchus, which proved so successful in the days of the Roman Republic, has proved hardly less successful in our day, when applied by the Conservative party of Great Britain. See 3 Mommsen's History of Rome, Ch. 3.

[6] Officialism in England, E. W. Huffcut, 8 Polit. Science, p. 58; Influence of Socialism Upon English Politics, W. Clark, 3 Polit. Science, p. 549.

[7] 6 Forum, 542.

[7a] See article by C. D. Wright, Jan. number Century Mag., 1901, What the Government Costs.

[8] See article on the Remuneration of Public Servants, by F. D. Y. Carpenter, 135 N. Am. Rev., 175. See debate on Codification of Postal Laws in 34 Cong. Record, especially 1234, 1242, 1650, 1897, 2413.

[9] See Townsend's Rep. H. of R. on Geographical and Geological Surveys West of the Mississippi, 43 Cong. 1 Ses. No. 612, May 26, 1874.

[10] The Relations of the Government to the Telegraph; or, a Review of the Propositions Now Pending Before Congress for Arranging the Telegraph Service of the Country, by David A. Wells, N. Y. 1873; Dorsey's Rep. on Telegraph Lines as Post Roads, 43 Cong. 2 Ses., No. 624, Feb. 8, 1875; House Mis. Doc., 42 Cong. 3 Ses., No. 79; also Ch. XI., Sec. 10, on The Efficiency of State Railways. See an instructive article by William Hill, 3 Journal of Polit. Econ. 1.

Also Senate Doc. No. 39, 54 Cong., 2 Sess., entitled Postal Telegraph, Postal Sav. Banks, Life Annuities and Pensions for Old Age in Foreign Countries.

[12] Necessity of State Aid to the Unemployed, Stanton Coit, 17 Forum 276; Dangerous Absurdity of Granting It, D. McG. Means, Id. 287. See Aristotle's chapters on Democrocy in his Politics; The State and the Poor, H. W. Farnam, 3 Polit. Science, 282.

[13] For an earlier advocacy of this idea, see 2 Penn Monthly, 525, in 1871.

[14] The writers on the relations of the State to industrial action may be divided into four classes: First, the extreme individualists who maintain that the State has no industrial function, represented by Herbert Spencer and W. G. Sumner; second, those who believe that the State should exercise functions of control over industries based on public franchises, represented by H. C. Adams; third, those who believe in public ownership and management of the means of transportation, communication, lighting and kindred public facilities, represented by R. T. Ely, E. J. James, E. W. Bemis; and, fourth, the socialistic school, who desire that the State should assume the ownership and management of all the means of production, represented by Frederick Engels, in Germany; Sidney Webb, in England, and the late Laurence Gronlund, in this country.

[15] See articles by E. J. James, The Relation of the Modern Municipality to the Gas Supply, 1 Pub. of Am. Economic Association, 53; Report of a Committee on the Relation of Modern Municipalities to Quasi-Public Works, 2 Id. 497; Municipal Ownership of Gas in the United States, 6 Id. 287, by E. W. Bemis.

CHAPTER II.

NATIONAL GENERAL EXPENDITURE.

1. Expenditure of the Executive Proper.
2. Maintenance of the presidential mansion and grounds.
3. The Executive Departments.
4. Classification of officials.
5. Officials of the first class.
6. Extension of the civil service.
7. Same subject.
8. Departments must make reports.
9. Expenditures are either permanently or annually authorized.
10. An appropriation cannot be diverted from its original purpose.
11. Limit of discretion only in using contingent funds.
12. The mode of contracting for supplies.
13. Bidders for contracts may still act in concert.
14. Good effects of recent uniform action in purchasing supplies.
15. The adoption of continuous contracts.
16. Principal officers in the Treasury Department.
17. All income and expenditures go through this Department.
18. It is the accounting office.
19. Former mode of accounting.
20. Delays caused by so many examinations.
21. No system of accounting can prevent frauds and errors.
22. The object of so many examinations.
23. Exception in the application of the system to the land office.
24. The present method of accounting. The first or administration audit.
25. The second or auditor's examination.
26. In what cases there is further action by the controller.
27. His duties further defined.
28. Mode of paying money to a disbursing officer.
29 Mode of paying a claim.
30. Good results of the present method.
31. What claims are audited before payment.
32. Expenditures of the Department of the Interior.
33. Expenditures of the other Departments.

1. Having considered some of the principles that should serve as guides in expending public money, we

will begin with the expenditures of the Executive Proper. The President receives an annual salary of $50,000, and the Vice-President $8,000. For the President's private secretary $5,000 is allowed, and $2,500 for an assistant secretary. Four clerks are attached to the office, one of whom is a disbursing clerk, whose duties, as he belongs to an important class of officials, may be briefly described. He draws drafts on the Treasury for money appropriated by Congress for the use of his Department, and deposits them with the Treasurer, or an assistant treasurer, of the United States. With this fund he pays in checks the salaries of the persons employed in his Department, and makes a monthly return to the fifth auditor of the Treasury Department. He is required to give bonds to secure the government against loss should he not faithfully perform his duties. A similar official is employed in each Department.[1]

2. Besides his salary, the President has the use of the presidential mansion, which is furnished at public expense. The grounds also are maintained in the same manner. The mansion and grounds are under the control of the superintendent of buildings and grounds, who disburses the money appropriated for keeping them in order.

3. By the constitution, the government is divided into three Departments, the Legislative, Executive and Judicial. The work of the Executive Department is again subdivided into eight Departments: State, War, Navy, Treasury, Justice, Post-Office, Interior and Agriculture. Of these Departments, the work of the Department of the Interior is the most complex. Its three most important subdivisions relate to the payment of pensions, Indian affairs and the sale of public lands. Each of these subdivisions has a chief, who acts under three most important subdivisions relate to the payment of pensions, Indian affairs and the sale of public lands. Each of these subdivisions has a chief, who acts under

the direction of the Secretary of the Interior. A vast amount of work is done in this Department, especially in the Pension Office, and the roll of employees exceeds that of any other bureau of the Government. Beside paying pensions, surveying and selling lands, and looking after the Indians, the Secretary of the Interior is charged with a great variety of other duties. One of these pertains to the railroads in which the Government is interested as a lender of money or as grantor of lands. Another duty is the governing of the Territories, managing of the National parks, the Patent Office, educational matters, the work of the Fish Commission, and of various institutions for the insane.

4. The persons who conduct each of these Departments are divided into three classes. In the first class are persons appointed by the President who are confirmed by the Senate; in the second class, persons who serve by appointment of the President, or the head of a Department; and in the third class, employees under the Civil Service rules, who obtain their positions by submitting to an examination.

5. The officials included in the first class are the heads of the Departments, their principal assistants, ambassadors and consuls to foreign countries, postmasters of the first, second and third classes, and customs officers. The entire number whose appointments must be confirmed by the Senate are 4,815.[2]

[2]See Rep. of Civil Service Com., 1899. One of the most forcible arguments against the Civil Service was made in the House by J. M. Griggs, Feb. 5, 1901, during the debate on the remuneration of postoffice employees. After giving clear proof of the existence of an organization among them to obtain an increase of salary, Mr. Griggs asked: "Is he organized against capital? He is organized against supposed oppression or wrong somewhere. He is necessarily organized against the Government of the United States. The Government is merely the agent of the people. He is not only himself one of the agents of the people, but he is one of the people. Wherever such organized effort is made by Government employees to bring pressure on Congress for the purpose of changing their relations to the Government, they are engaged in an effort to coerce not only Congress, but

6. One of the most needful political and economic reforms is to bring more of the persons employed by the government within the scope of the Civil Service rules. It is generally admitted that the government would be better served if persons were permanently employed. Even politicians are beginning to realize that the power to bestow offices yields disappointing results. As the pressure for places increases, disappointed applicants often do more to tear down the popularity of the appointing power than the successful ones to sustain it. Thus the idea of a reformed Civil Service is growing among the class who were once its most strenuous opponents. Concerning the superiority of a reformed Civil Service, its merits are so evident, and have been so fully described, that nothing more need be done than to refer the reader to the reports of the Civil Service examiners.

7. As the duties of most officials are quickly learned, the rotation system, so its defenders strongly contend, is more in harmony with republican ideas. A fatal defect of this system is, appointees can bring no vouchers for

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the people of the United States. That which would be denounced as treason and conspiracy on the part of soldiers is commended as a patriotic effort to redress wrongs on the part of civil employees. The great body of the people, Mr. Chairman, do not draw from the Treasury of this Government for their support; on the contrary, the Treasury draws on their resources, and they must pay the draft. Should the entire officeholding class become organized into a great body of salary grabbers, making its annual demands on Congress, it would not be a case of the labor union protecting its members against the aggressions of capital; it would be rather the aggregation of capital oppressing labor. It would be the salaried man against the unsalaried man, who must meet whatever demands the Government makes upon him. Once in two years only has he the opportunity of declaring his approval or disapproval of our acts. The Government employee is perennial in his demands. He is an ever-blooming rose, Mr. Chairman. There are about 300,000 employees in this Government. If once thoroughly organized and voting solidly, they could turn the scales in any Presidential election. In almost every Congressional district in the United States an active organization of Government employees may be able now to turn the scales at every election." 34 Cong. Record, 2176, 2179.

their faithfulness, which is an indispensable element of efficient service. An employe may be highly competent for his task, but if he is lazy, feigns sickness, in short, is without pride or honor and seeks to draw his salary and make only the slightest return therefor, he is unfaithful, and, consequently, an unfit servant. Furthermore, his faithfulness can be established only by trial. It is therefore a serious thing to displace a servant whose faithfulness is firmly established for one whose faithfulness is a matter of trust and conjecture. What would be thought of a great corporation that adopted the rotation system? And how would the leading officers feel if their assistants, whose competency and faithfulness were well known, were constantly displaced by order of the directors for others whose competency and fitness were to be proved?

8. The head of each Department must render an annual report of its expenditures, of the number of persons employed and their compensation, and a full account of everything done in his Department; and the head of every subordinate Department must render an account to his chief of all matters within his narrower province.[8] Through these reports, the general and minor ones, very complete information can be gained concerning the work of every Department. Of course, irregularities are not reported, but many of these are discovered through investigation by the Departments or by Congress. The principal defect concerning these reports is the faulty method of distributing them. Only a few persons know their worth; they are like a buried city of the far East, wherein is entombed the records of the activity of the various Departments of government. An effective plan should be adopted for their general distribution. Were this done, the people would read them and take a deeper interest in the public business. From time to time a report has been made on the subject by some committee of Congress, but no adequate plan has been adopted. We

would suggest the introduction of the British system, with some modifications. Let the government prepare and print from time to time a list of its publications, affixing a small price to each, and send the list to all of the more important post-offices to be put in a conspicuous place, charging the postmaster with the duty of getting reports for all who order them.[4]

9. Expenditures by the Departments are authorized by Congress. A part of them (like the interest on the public debt) are of a permanent character; the remainder are authorized by annual appropriations.

10. The laws provide in precise ways for the expenditure of public money, but formerly the Departments exercised great authority in transferring appropriations made for one purpose to another; this can no longer be done. Furthermore, if expenditures properly authorized are not made within a fixed period, two years in most cases, they lapse; in other words, the law regards them as no longer authorized, and the money appropriated cannot be used, unless re-appropriated.[5]

11. The only discretion left to the Departments is in the use of contingent funds, which Congress has been steadily diminishing. If executive officers were always conscientious and capable, the public might be better served by making some appropriations less specific; as their authority to expend money has been greatly abused, the wisdom of narrowing it none will question.

12. For the same reason discretionary authority has been largely taken away from public officials in making contracts for supplies. The present method is to prepare specifications of the things wanted, and to invite, through advertisement, bids for supplies and work of all kinds needed by the government. This practice has become general, and in the main is satisfactory. The law does not require the selection of the *lowest* bidder, but the *lowest* and *most responsible* one; by this requirement the

government is much better served than it was before. The law provides for the inspection of everything purchased, and bidders must give bonds for the proper execution of their undertakings. In this way the government succeeds in getting supplies at the lowest prices from those who are able to furnish them.[6]

13. Of course there is nothing to prevent bidders from secret, concerted action; probably they do act together on some occasions.

14. Another improvement has been made within a short period. Formerly, the supplies for the Departments at Washington were advertised at different times; the bids were furnished irregularly, and the prices varied greatly. By the new plan, a board has been created consisting of an assistant secretary of the Treasury Department, with representatives from the other departments, who fix uniform days for inviting proposals for fuel, ice, carpets, stationery and other miscellaneous supplies for the Executive Departments. The board compares all the bids received and recommends which shall be accepted or rejected. By this law uniformity of prices as well as a considerable reduction is secured.

15. In 1890 Congress made a radical departure in authorizing the government to make continuous contracts. This new system authorizes the government to ascertain the expense of an undertaking, and having done so, to make a contract for work, reserving, however, authority to make appropriations therefor at such times and for such amounts as Congress shall determine. Unquestionably the system is more economical than the other, as individuals are willing to undertake such contracts at lower prices than by the old system, under which they had no sure knowledge concerning the future action of the government in completing its undertakings. The new system was first applied to the Congressional Library building, and was soon extended to contracts for improving rivers and harbors. The objection to the system is

that it is likely to result in greatly increasing appropriations. Thus the fifty-first Congress, which created the system, authorized contracts amounting to $13,282,979; and the fifty-second Congress, $31,760,521. The next Congress authorized no new contracts; but the first session of the fifty-fourth Congress authorized contracts requiring an expenditure of $59,659,550.[8]

16. Passing from the mode of making contracts to the Treasury Department, it may be remarked that in this more persons are employed than in any other except the Interior Department. The Secretary of the Treasury is aided by three assistants. Besides these are the treasurer, controller of the currency, director of the mint, controller of accounts, six auditors and the commissioner of internal revenue. The Treasury is divided into nine divisions.[12]

17. As all the income of the government runs into this Department, so do all expenditures run from it. By its own immediate direction are all expenditures for conducting the Treasury Department, collecting the revenue, besides the expenditures of the supervising architects, the marine-hospital service, the light-house and life-saving and steamboat-inspection service, and the coast survey.

18. As it has the entire resources of the government the other Departments must get the means from it for paying their expenditures. If the War Department needs money, a requisition is made on the Secretary of the Treasury, which is duly honored, assuming that Congress has made an appropriation for the purpose desired. This, therefore, is the great accounting office of the government, and the larger number of persons employed therein are engaged in accounting for the receipts and expenditures of persons in the employ either of the Treasury Department or of other Departments.[13]

19. In the beginning, the officers of the Treasury Department consisted of a Secretary, controller, auditor,

treasurer and register. Of these, the only officers whose duties related to accounting were the controller and auditor. The Secretary superintended the business of collecting revenue, and signed warrants, countersigned by the controller, for the payment of money; but he was endowed with no authority to adjust or settle accounts. These were settled by the auditor and revised by the controller. Nor was the treasurer an accounting officer, authorized to pass on the accounts of others. The register had no authority over either settlements or payments; he simply kept the books of account and registered all settlements and payments. The need of a register to keep the books and preserve the accounts has always been questioned, as this work might have been performed, either by direction of the secretary or controller. This plan worked well in the early days, when the business of the government was not great, and there were no complaints of delay in transacting the public business.

20. Until 1894 there were three, and sometimes four, examinations of accounts. So many examinations with the increase of business caused great delay in the settlement of accounts. Advances were continually made to disbursing officers as requested by them without any knowledge by the Treasury Department of the condition of their accounts. Enormous balances, often running into millions, were charged against them on the books of the Treasury Department. A disbursing officer received an advance in December, 1893, though there was charged against him on his account over $8,000,000. The accounts of the Indian agents were kept in the office of the first examining officer in the Indian Bureau, perhaps for a year, before they were taken up for examination; then they remained in the office of an auditor for another year before he could examine them; then they were sent to the controller, who perhaps retained them another year before passing them. During all this time, however, advances were made to the Indian disbursing agents. During the

Civil War, the account of a paymaster in the United States Army, stationed at New York, was settled November 1, 1867, which included his disbursements to December 3, 1863, four years behind the settlement. It showed an aggregate amount of $168,376,000. On November 1, 1867, a balance was brought down and charged against him, for which he had not accounted, of $142,774,000. In some form he had accounted for this money to the paymaster-general, but not to the accounting branch of the government. The officer had a bond for only $40,000. The officers who were thus charged with money suffered greatly in mind from long delays in settling their accounts. Though not suspected of wrong-doing, they were desirous of having their accounts closed, and so were their bondsmen.

21. No system of accounting can be devised that will protect the government against all corrupt practices and irregularities. These have happened from time to time for considerable amounts. Doubtless the crookedness in many an account has never been discovered by the accounting officers.

22. The principal object of re-examining accounts is to secure the government more perfectly against fraudulent practices. One officer is supposed to act as a check on another. Besides, errors may occur in accounting which might be detected on a second, or perhaps third, examination. In a report made to Congress in 1842 by a select committee on retrenchment, it was remarked that responsibility is rarely increased by multiplying agents to do the same thing. Instead of acting as checks to prevent wrong-doing, too often they promote negligence and fraud by distributing the responsibility for what is done.

23. This system was so elaborate that in 1849 a change was made in settling the accounts of the land office. From that time they have been audited and settled in that office, and sent directly to the controller for review. Again, in 1836, an auditor was appointed for the post-

office department, whose audit is final and conclusive, unless an appeal is made to the controller.

24. Having described in outline the old method of accounting, we will briefly describe the present method. Two audits are made of most accounts; the first is by the Department in which they originate, and is called the administration audit. This audit is as complete as any by the best conducted corporations or commercial houses. When this is done, accounts go to one of the six auditors who are appointed to audit them. They are known as auditors for the Treasury Department, War Department, Interior Department, Navy Department, State and other Departments, Post-Office Department, and are numbered from one to six in the order above given.

25. An auditor's examination is a review and check on a department's audit, and no claim is paid until that Department is notified of the result of the audit by the proper auditor. There are a few claims, such as back pay and bounties, which go directly to an officer without an administrative examination, but the law provides for an independent examination of this class of claims in the Treasury Department itself.

26. An auditor's examination is conclusive, unless exception is taken; when this happens, the account goes to the controller for further action. Only one is now employed, and among other gains from abolishing the office of second controller is uniformity in decisions. Again, as he simply considers questions relating to the construction of laws, usages and prior rulings, and does not attempt to review the details of an account unless the nature of the dispute requires an examination of them, his work is more quickly performed. The controller's decisions are guides to the auditors, and preserve uniformity in their work.

27. The controller also passes on every advance to a disbursing officer; and if he has not complied with the

law in rendering his account, or the balance against him is too large, refuses to countersign the warrant for the advance. A similar authority rests with the Secretary of the Treasury.

28. The way is now prepared for explaining more fully the method of making settlements and issuing warrants for the payment of money under the new system. Let us first take the case of a requisition for an advance of funds to the disbursing officer of the War Department. A requisition of the Secretary of War is presented to the division of bookkeeping and warrants in the Treasury Department. The condition of the officer's accounts appears on the books of the division, and is duly stated on the face of the requisition. It is then sent to the auditor of the War Department for his action. If the disbursing officer has complied with the law in rendering his accounts, the requisition is approved and returned to the division of bookkeeping and warrants. The appropriation for the purpose desired and the individual account of this officer are than charged with the amount of the requisition and a warrant is drawn. This is signed by the Secretary and countersigned by the controller, and the necessary entries concerning the appropriations are also made in the controller's office. The warrant then goes directly to the Treasurer, and after it has been entered and signed by him is ready to be mailed or delivered, as the case may be. The requisition for the money accompanies the warrant until it reaches the office of the auditor for the War Department, when it is filed with the accounts of the disbursing officer. Much time is saved by this new method of drawing money.

29. Let us take the case of a claim pertaining to the same Department. After an examination and audit by the War Department it is sent to the auditor for the War Department for his action. After his re-examination he certifies it to the division of bookkeeping and warrants, and a copy of the certificate is presented to the

Secretary of War. A warrant is issued on the certificate thus issued by the auditor, which is signed by the controller, and then sent to the Treasurer, who makes the necessary entries on the books of his office, and signs and delivers it as in the case of a warrant for advances of money to a disbursing officer. The certificate is then detached from the warrant, returned to the auditor of the War Department, and filed with all the papers pertaining to the claim.

30. The best results have followed this radical change in the method of accounting. Accounts are now rapidly settled. Had this system of disbursing not been adopted, chaos would have reigned in the administration of the finances of the Government.

31. Perhaps many will be surprised to learn that only the smaller number of accounts are adjusted before paying them. Nearly ninety per cent. of the money of the Government is disbursed, and settlements are made afterward. In the office of the first auditor, these claims are divided into forty-eight classes; in the second auditor's office, thirty-seven classes; in the fourth auditor's office, nineteen classes; in the fifth auditor's office, seventeen classes; and in the sixth auditor's office, none.

32. In making expenditures no one will question that those for a single purpose ought to be made as far as possible by a single department, instead of dividing the work and responsibility among two or more. Such a division tends both to wastefulness and inefficiency. During the Administration of President Arthur, and when Mr. Chandler was Secretary of the Navy, he discovered that the economy and efficiency of the Department were seriously impaired through the neglect of this principle in the different yards and bureaus. These were thoroughly reorganized, specific limitations were imposed on all, and the improvement was so manifest that the reorganization, though not strengthened by force of law, has been continued by his successors.[14] Of late years the navy has been

seeking to invade the field of the geodetic and coast survey. To many during the debate on this subject in the House during the winter of 1900 it seemed as though the navy was peculiarly qualified to do this work and with economy. Yet it was clearly shown that the specially organized body for doing this work could perform it better and far more economically. In truth, there had been a fair and thorough trial. After the Spanish War the Coast Survey had surveyed the waters around Porto Rico, while the navy had surveyed under the same conditions those around Cuba. But the results, economically, were very different. The soundings taken by the Coast Survey cost 35 cents apiece, while those taken by the navy cost $1.08. It was clearly shown during the debate that naval officers proceed by slow, cumbrous and costly methods, and with little or no regard for economy while the Coast Survey did its work in a speedier, less elaborate and less costly manner.[15] One other illustration may be given. A few years ago the Government was sustaining several geological commissions, who were duplicating to a considerable extent each other's work. Besides, a fierce jealousy sprung up between them, and each was angered by the appropriations made to the others. At length the tangle was straightened out through the aid of the National Academy of Sciences, and the existing Geological Survey is the sole survivor or successor.[16]

33. There is a tendency in all departments and bureaus of the government to expand, and often in so doing to invade the field of some other department or bureau. Thus, at the present time, there is a strong tendency on the part both of the navy and Geological Survey to cut into the clearly defined field of the Coast Survey. Not content with doing this, the Geological Survey is cutting out new work for itself in many directions and asking for larger appropriations. Indeed, the work which it can easily discover worth doing in a country so vast as ours is boundless.[17]

[1]For amount of expenditures of Executive Proper, see Appendix A.

[2]For a more detailed account of the duties of the officers of the different Departments, see the U. S. Statutes; Webster Elmes' work on The Executive Department of the U. S. at Work, Their Powers, Functions and Duties; G. N. Lamphere's U. S. Government, Its Organization and Practical Workings. Elmes and Lamphere are rather old, but there are no better works on the subject.

[4]See first and second Annual Reports of the Supt. of Docs., 1895, 1896.

[6]Sections 3690, 3691, Rev. Stat. 1875, p. 734. See Ch. xvi., Secs. 13, 14.

[6]See some very interesting remarks on this subject in Secretary Francis's Report, Dep. of the Interior, 1896, 116-118, with reference to purchases by the Columbia Institution for the Deaf and Dumb.

[8]For the economy of the contract system, see debate on the Sundry Civil bill, 29 Cong. Rec., 1882, 1892, 1907, 1934.

[12]Appointments; Bookkeeping and Warrants; Public Moneys; Stationery, Printing and Blanks; Loans and Currency; Revenue Cutter Service; Mail and Files; Special Agents; Miscellaneous.

[13]On this subject, see an elaborate report by Senator Cockrell, chairman of a select committee to examine into the Methods of Doing Business in the Executive Departments of the Government, March 8, 1888, 50 Cong., 1 Sess., No. 507. Also a series of very valuable reports made by a joint committee of the House and Senate in 1893-1895. These have been published as House Reports, 1 Sess., 53 Cong., 1893, Vol. 2. See also Senate report on the Books and Methods of Accounting in the Treasury Department, 44 Cong., 1 Sess., No. 371; "Control of National Expenditures," E. J. Renick, 6 Polit. Science Q., 248; same subject, a different view, by N. H. Thompson, 7 Polit. Science Q., 468; "The Controllers and the Courts," E. J. Renick, 5 Polit. Science Q., 214.

[14]See the annual reports of Secretaries of the Navy Chandler, Whitney and Herbert.

[15]See a very interesting debate on this in the House, 33 Cong. Record, 4720-4736; Id., 5521-5529; Id., 5633. The subject was debated in both houses at great length, the Senate favoring a large appropriation to be expended by the Navy in making surveys and the House opposing it. It was not until after several conferences that the two houses agreed, the House at last yielding.

[16]See article by S. Newcomb in 170 North American Review, 666, entitled "Science and Government."

[17]Concerning the work of the Geological Survey, its character, its rapid extension, see a very interesting debate, both in the House and Senate, 33 Cong. Record, 7355; Id., 6576; Id., 1154; Id., 6735.

CHAPTER III.

NATIONAL EXPENDITURE FOR PEACE AND DEFENSE.

1. Expenditure of the State Department.
2. Ambassadors of the first class.
3. Ambassadors of the second class.
4. How ambassadors were formerly paid.
5. Evils of the system.
6. Evils further described.
7. Abolition of the office of foreign minister.
8. The consular service.
9. The fee system of payment should be abolished.
10. Expenditure for defense is a necessity.
11. Size of the army.
12. Relation between national and state defense.
13. Condition of enlistment.
14. A short term of service desirable.
15. How army supplies are furnished.
16. The navy. Its growth.
17. Not many vessels should be kept in active service.
18. Defects in the former division of the duties of the Navy Department.
19. Duties of the bureau of construction and repairs. Cost of recent vessels.
20. Duties of the bureau of supplies and accounts.
21. Economy effected by the change.
22. Modern practice in furnishing security for contracts.
23. Number engaged in the naval service. Naval militia.
24. Expenditure for sea-coast defense.
25. Present mode of conducting work at navy yards.
26. Remarks of Secretary Herbert.
27. Mode of employing workmen.
28. Contract versus government work.

1. To maintain intercourse and peace with other governments, a Department exists for this purpose, the head of which receives an annual salary of $8,000, while his first assistant, like the assistants in other Departments,

receives $4,500. The second and third assistants, however, receive an annual salary of $3,500.[a]

2. Of the representatives sent abroad only four are ambassadors, who receive an annual salary of $17,500. They are sent to Great Britain, France, Germany and Russia.

3. Of the ministers, only seven get an annual salary of $12,000; these are sent to Austria, Brazil, China, Italy, Japan, Mexico and Spain. Nearly all who are sent to the countries of South America receive $10,000—Argentine Republic, Chili, Columbia, Peru, Guatemala, including Costa Rica and Turkey. The ministers to the following countries receive $7,500—Denmark, Hawaiian Islands, Korea, Netherlands, Paraguay, Portugal, Sweden and Norway, Switzerland; the minister to Greece, $6,500, and those to Bolivia, Ecquador, Hayti, Persia and Siam, $5,000.

4. Until 1855 a foreign minister of the first class received an annual salary of $9,000, yet he succeeded in getting for his first year's service $23,250, so elastic was the business end of the government. How was so much fished out of the treasury? Besides the salary, the minister was allowed an outfit of $9,000 and an infit of $2,250, and the average of the overlapping salary, making $23,250 as the actual expense to the government of a foreign minister who remained abroad one year. If he remained abroad two years, his actual expense to the government was $32,250, and his annual receipts were one-half of that sum. If he remained abroad four years, or a presidential term, his actual expense to the government was $50,250, and his annual receipts $12,526.50.

5. By this system great evils arose. A minister got his outfit, equivalent to one year's salary, remained at home six or eight months before starting for his post of duty, and drew pay from the date of accepting his commission. He then started for his mission, stayed a few months, drew his salary and infit of $2,250 and returned.

As thus worked, this high office was a very soft snap. No wonder that many came to think that the government could dispense with such officials with a saving of money and without loss of glory.

6. By this system it was learned that some American representatives abroad were paid too much, while others, who served long periods, were not paid enough. So in 1855, after an elaborate debate, during which a full account was given of the working of the diplomatic and consular system, a radical departure was adopted. A salary of $17,500, without an allowance of any kind for outfit or infit, was fixed as a reasonable compensation to first-class ministers.

7. In the olden times, when communication between governments was slow, the office was far more important. Now, all weighty negotiations are conducted by the immediate representatives of governments, and the work of ambassadors has shriveled into that of carriers or bearers of dispatches—a service which can be performed by persons of very moderate attainments. Consequently, the abolition of the offices has been urged on several occasions by members of Congress. Whether he may be even ornamental depends.

8. Those serving in the consular service are consuls-general, consuls and commercial agents, and are arranged in two schedules, B and C.[1] Consuls-general and the first six classes of consuls receive a fixed annual compensation, that of the consuls-general varying from $2,000 to $6,000, of the consuls from $1,500 to $3,500. None of the officials included in this schedule can transact business on his own account; this is confined to consuls of the seventh class in Schedule B, the consuls in Schedule C and commercial agents. All are paid from the income received, the consuls of the seventh class in schedule B receiving an additional annual compensation of $1,000. All are required to make a return of the fees they receive; and

their annual compensation from this source is limited to $2,500.

9. The fee system is not only a small, undignified mode of remuneration, quite unworthy of a government so able to pay as the United States, but is grossly abused. Fees are exacted or increased when they ought not to be. The system has been broken up in part and should be entirely. Consuls should be required to account for all fees, and be deprived of all discretion or right to retain them.[1a]

10. Besides the expenditure to maintain intercourse and peace with other nations is the expenditure for defence. This is a necessity, though opinions greatly differ concerning the extent of the preparations that should be made to defend the country against external and internal foes. How large should be the army? How much should be spent on forts and in improving ordnance? These are questions of perpetual interest on which opinions will always be divided.[1b]

11. First may be considered the army. For many years the maximum number has been 26,610, composed of twenty-five regiments of infantry, ten of cavalry and seven of artillery. The general commanding has long urged an increase, and General Miles would have the number bear some relation to the population—"the minimum of one soldier to every two thousand population and the maximum of one soldier to every one thousand population."[2] By the law of 1899 the number of the regular army was raised to 65,000 men, and by the same law a volunteer force of 35,000 was authorized. As these additions could serve no longer than July 1, 1901, in January of that year the number was increased to 100,000 men. The need of an increase is urged for internal protection. This is only a superficial way of looking at the National situation. Even with a smaller population, more viciously inclined, a larger soldiery would be necessary. On the other hand, with a larger population,

better educated and more law-abiding, the need of increasing the army would be less imperative. Yet public sentiment, doubtless, would approve an increase based on such considerations. Not long since a considerable force was needed to preserve peace among the Indians; happily, that day has passed. Railroads have proved great civilizers, and soldiers once employed in that unwelcome service are now released for other duties.[3]

12. The number that ought to be maintained by the National Government depends largely on the number and quality of the State troops, and upon the ability of the Government to use them in its defence. In many of the States excellent military organizations exist, and, if required, could quickly furnish aid to the National Government. At the outbreak of the recent war about 115,000 men were thus organized, for whom the Government provided weapons. This arrangement is obviously desirable for both the National and State governments. The State force, therefore, may be regarded as a powerful assistance to the National Government in maintaining peace and lessening the need of a National army or police to protect our National interests at home and abroad.[4]

13. The soldiers for the National army are enlisted for a period of three years. Any citizen, or intended citizen, can enlist. The cost of advertising for recruits, of enlisting and drilling them is considerable, which sum added to their pay renders American soldiers more costly than the soldiers of any other important country. The principal items of cost for maintaining them in the United States, England, France and Germany are added in a note.[5]

14. Under the present mode of enlisting, the soldiers change rapidly, yet this is not deemed a disadvantage, as a larger number acquire military experience, which could be utilized in the event of war.[6]

15. Supplies for the army are furnished by contract. Specifications are prepared and bids are solicited, awards

are made, and the things offered are inspected before their acceptance. The system in many respects is quite perfect, and whether the Government is well served or not depends on the honesty and efficiency of its servants.[7]

16. Next may be considered the Navy Department.[8] Only a few years ago all the vessels were of wood, and would have been of no account in a contest with vessels of modern type. Public sentiment is much divided on the question of a small or large navy. The United States is so isolated from other countries that many contend there is no need of a large navy to maintain National dignity and independence. Others contend that persons are unwilling to invest their money in ships until the Government provides for their protection. It is said, too, that, try ever so hard to keep peace at home, unpleasant occurrences are sure to happen. Without a navy, however high-minded our merchant marine may be, the vessels of other nations will impose on our unprotected ships. A navy, therefore, it is urged, is absolutely necessary to protect National rights and secure the growth of American commerce.

17. But if the building of so many vessels is justified, surely there is no reason why all should be kept in active service. In 1896 sixty-one were thus employed at an expense of more than $8,000,000. Four of the finest ships were kept in the Mediterranean, and during a large part of the year at the single port of Smyrna. The daily cost of the cruiser New York was $1,131. The following table shows what might have been saved by putting some of the ships in reserve:

	Saving per day.	Saving per year.
New York	$967.00	$353,099
Olympia	786.00	286,890
Columbia	761.00	319,035
Cincinnati and Raleigh, each	509.00	185,840
Amphitrite	316.00	115,525
Total saving per year		$1,446,229

Besides this saving, officers and men would have been released for manning new vessels, which require skilled men in their preliminary "shaking down."

18. The Navy Department is divided into a series of bureaus: a bureau of docks and yards, another of engineering, another of supplies, etc. When Mr. Chandler was Secretary of the Navy, during President Arthur's administration (1881-85), he advised that the two bureaus of construction and repair be united; he also reorganized and concentrated the mechanical department in navy yards to prevent the duplication of work. His successor, Mr. Whitney, advised Congress to combine all authority under three heads: one to manage the personnel of the navy, another to purchase supplies and keep accounts, and the third to construct and repair ships. Although the plan failed to secure the favorable action of Congress, it has been adopted to some extent without legislative action.*

19. The bureau of construction and repair is charged with the work of designing, constructing and repairing vessels. The expenditures for increasing the effectiveness of the navy have greatly increased since 1891, and have approached the figures for all the other expenditures of the Department:

NAVY EXPENDITURES.

	1889.	1890.	1891.	1892.
Increase of Navy.....	$5,630,954	$6,831,803	$10,609,197	$13,756,500
Other expenditures ..	16,071,769	15,515,298	15,867,390	15,798,179
	1893.	1894.	1895.	1896.
Increase of Navy.....	$15,030,227	$16,199,259	$13,182,134	$9,453,002
Other expenditures ..	15,492,712	15,891,399	16,025,935	17,490,906
	1897.	1898.	1899.	1900.
Increase of Navy.....	$14,539,911	$10,753,388	$10,277,217	$14,398,254
Other expenditures ..	19,694,465	47,709,117	53,099,455	40,866,269

Many contend that millions have been saved in not building iron and steel vessels sooner, as our Government has utilized foreign experience in building our navy. Others

say that, after all, this is a mean advantage, and that our Government ought to have expended a fair share to find out what kind of vessels, armor and ordnance were needful for the National protection.

20. The bureau of supplies and accounts is one of the most important. Its accounts embrace every appropriation for the navy and cover all expenditures. They are based on returns received from every ship in commission, from every navy yard and station, and from every manufacturing department.

21. Since placing the purchase and custody of supplies for the navy under one bureau, in 1886, great economies have been effected. At the time of beginning the reform, stores and material were on hand amounting to $16,000,000. Large quantities of similar stores had been purchased by different bureaus. Each bureau had stores at its separate storehouses and its own storekeepers. Many of the supplies had become worthless; some had been left over since the Civil War; others had been bought at a later day, anticipating war with Spain. Many had been bought at prices far above the market rates. Surveys and examinations were ordered to rid the departments of useless stores and to correct fictitious values. The deductions amounted to $1,781,865. Notwithstanding the obvious economy of this system, many of the bureaus which have lost dominion over their supplies and accounts are trying to recover their authority.

22. In answering proposals for supplies, it was long the custom to require bidders to furnish bonds for the due performance of their contracts. Of late years certified checks have been substituted for bonds and guaranties. This is a noteworthy improvement, as checks can be readily furnished and their worth can be more quickly determined.

23. The navy, at present, consists of 14,501 officers and men, including marines.[10] It is contended by those who are acquainted with the service that the number

ought to be increased to 20,000. With the growth of ships an increase must be authorized to some extent, otherwise they will not be properly manned unless more ships are kept in reserve. The need, however, of increasing the number to provide sufficiently for home defence is less since the States began the creation of a naval militia, which is worthy of mention. At the present time the number of officers and men thus serving in the different States is 2,695. To promote the efficiency of the naval militia, Congress has authorized the Navy Department to loan vessels, boats and equipments not required in the general service on the request of the Governors of States that have regularly organized naval militia—New York, Pennsylvania, Maryland, North Carolina and California. The movement is in its infancy; the results are promising, though the precise relations of the militia to the regular service and how the two shall co-operate in National defence have not been established.[11]

24. For many years the Government annually appropriated a small sum—from one to three millions—to build forts along the seacoast. The improvements in modern ordnance have been so great as to render them almost worthless. So in 1886 an entirely new system of forts was devised. By this system forts were to be built at 27 ports, requiring 677 guns and 824 mortars of modern construction, at a cost of $97,782,000, not including $28,595,000 for floating batteries. An immediate appropriation of $21,500,000 was recommended and an annual one of $9,000,000 until the completion of the system. Besides different vessels, torpedo boats, cruisers and the like, the disappearing battery is one of the latest inventions for protecting the coast against foreign invasion.

25. One of the old ways of increasing naval expenditure was to keep more yards in operation than were needful and to divide work of the same kind among them. This proved a most wasteful course for the Government. There is usually a strong local demand wherever a navy

yard exists to employ more men and increase its activity. Secretary Chandler first put the axe to the root of this overgrown tree. He showed clearly the wastefulness resulting from dividing similar work among different shops representing different bureaus, and from having many different navy yards engaged in making repairs. At that time the Government had more navy yards and stations in operation than either Great Britain or France, though having only a small number of ships in commission. Secretary Chandler closed some of the yards, and his successor, Secretary Whitney, consolidated the work in others. He gave all the ordnance work to the navy yard at Washington; the equipment work to the Boston yard; the work of construction and repair to the yards at Brooklyn, Norfolk and Mare Island. He was succeeded by Secretary Tracy, who adhered to the policy of his two predecessors. Nevertheless, the struggle has continued on the part of the friends of all the navy yards to get them open for general repair work. Not content with having more yards than are needed, the pressure is constant on members of Congress to establish new ones.

26. Secretary Herbert has remarked that the multiplying of plants and diffusing the work is in direct defiance of all business principles. Such a policy is not only extravagant and wasteful, but really ruinous to the navy.

27. The system of employing workmen at the navy yards through a board of labor, without reference to politics, and in the order of their applications, giving preference to veterans and those of former navy-yard experience, means more efficient service. Efforts are constantly made to break the plan down and enthrone the old-fashioned political-pull principle for securing positions. The tendency of the Government is to establish a permanent service, which will secure more efficiency at less cost. Secretary Herbert remarked in his report of 1894 that the labor at the navy yards had so increased in efficiency since the adoption of this plan of hiring and retaining

men that many of the superintending officers were quite sure that the Government could now compete with private concerns in the cost of constructing vessels and machinery.

28. Almost all the newer vessels have been built by contract with various parties. Two ships, however, the Maine and the Texas, were built at navy yards. As the bids were somewhat above the amounts appropriated, there was no other course for the Navy Department. The plans were made abroad, and after many delays the work was finished. Instead, however, of costing only the sum specified by law, $2,500,000 apiece, their cost was, respectively, $3,685,797 and $3,227,085. It has been shown that the cost per ton for building the hull and machinery of the Maine and Texas was not much, if any, greater than for doing by contract similar work on other vessels. Yet the Government seemed to be so convinced of its inability to compete with private contractors that no Secretary of the Navy has ventured to repeat the experiment. We need waste no space in showing why the Government cannot build as cheaply as private concerns. Of course, a contractor is supposed to make a profit on his contract. Why cannot the Government save this by constructing vessels? France, England, Germany and other governments build most of theirs, though it is not maintained that the work is done as cheaply as it could be outside. The very trite truth is the Government is an expensive doer of all things, whether in building or repairing ships, or undertaking any other service. And this fact should be constantly kept in sight as a conclusive reason for narrowing the Government service until greater efficiency is attained.[12]

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[a]See Foster's American Diplomacy, Ch. iv.

[1]For an elaborate description of the duties of the consular officers at their many places, and the needs and reorganization of the consular service, see reports of F. T. Frelinghuysen, Ex. Doc., 48 Cong., 1 Sess., No. 121, March 20, 1884, and 48 Cong., 2 Sess., No. 65, Jan. 6, 1885.

[1a] "Evils to Be Remedied in Our Consular Service," W. H.

Rockhill, Assistant Secretary of State, 22 Forum 673. See excellent articles in the "Atlantic Monthly" by George F. Parker, formerly Consul to Birmingham, England, on the Consular Service of the United States. This first appeared in the April number, 1900. Also "Early History of the United States Consular Service," by E. R. Johnson, 13 Polit. Science, Q. 19. A bill is now pending for the reorganization of the consular service, on which Rep. Adams has made a valuable report, setting forth the objects of the system and recommending the payment of salaries to all consular officers. 56 Cong., 1 Sess., No. 562.

[1]b. A good article on the Army by Archibald Forbes may be found in 135 N. Am. Rev., 127; Needs of Our Army and Navy, by T. A. Dodge, 12 Forum, 247; The Military Systems of Europe and America, by Lieut.-Col. W. Ludlow, 160 N. Am. Rev., 72. See also valuable report by Senator Hawley, chairman of Senate Committee on Military Affairs, 55 Cong., 3d Sess., No. 1671.

For a history of the organization and increase of the Army, see speech of C. Dick, 34 Cong. Record, 1927.

[2]Rep. of War Dep., 1895-96, vol. 1, p. 69.

[3]See statements by General Miles and others on Army Reorganization before House Com. on Military Affairs, Dec. 12, 1898.

[4]See Rep. of Sec'y of War for 1899, and for an elaborate consideration of the relation of State governments to the National Government with respect to the maintenance and use of State troops see the valuable works by Col. W. A. Powell and Gen. G. A. Wingate.

[5]The pay and cost of clothing and subsistence of the cavalry and infantry private soldier in the United States Army is practically the same; as the difference in clothing, allowance, amounts to less than $3 per annum.

Their average pay, including service pay, is $14.50 per month, or $174 per annum. Their average clothing allowance is $34.86 per annum, and the estimated cost of subsistence 30 cents per day, or $109.50 per annum, a total cost per annum of $318.36.

The pay and cost of clothing and subsistence of the infantry of the line, is 1s. 2d. per day (28 cents), subject to a deduction for improving his fare and for his washing, of 5½d. (11 cents). Other stoppages may also be deducted; but it is provided by law that there should be left for the soldier not less than 1 penny per day. He has no money allowance for clothing, and the cost of his subsistence cannot be stated.

A mounted private, French army, receives 30 centimes (6 cents) per day, and an unmounted private 28 centimes (5 3-5 cents) per day, subject to deductions for improvement of his rations, etc.; but, as in the English army, it is provided that the amount actually paid to the soldier shall not be less than 5 centimes (1 cent) per day.

In the Germany army the private of infantry receives, according to corps, 10½ to 12 marks ($2.47 to $2.80) per month, and the privates cavalry 13 marks ($3.05) per month, subject to deductions for rations, etc., as in the preceding, so that the

actual amount received by the soldier is very small. His cost of subsistence is 115.63 marks ($27.17) per annum, or 7 52-100 cents per day. His cost of clothing is 49.89 marks, or $11.72 per annum.

For pay of officers by different countries see Senator Hawley's report, 55 Cong., 3d Sess., No. 1671.

[6]To train officers for the National service a military academy exists at West Point. Cadets consist of one from each Congressional district, Territory, District of Columbia, appointed by the President on the recommendation of their respective representatives of the lower House of Congress. Besides these, the President appoints ten more without such recommendation. They are admitted between the ages of seventeen and twenty-two. They are paid forty-five dollars per month, out of which they must pay for their subsistence, clothing, text-books, etc. The cost per day for subsistence during 1896 was fifty-three cents. The cost for supporting the Academy during 1896 was $183,173. See Ann. Rep. of Sup. of U. S. Military Acad., Appendix L. 188; Ann. Rep. of Board of Visitors to the Acad. 1887. How the Pay of Cadets is drawn from the Treasury and Disbursed, Id. 91-95.

[7]For the principal expenses of the War Department for 1900 see Appendix A.

For sources of information on military professional subjects, see No. XVII., War Dept., Ad. Gen. Office, Military Inf. Div.

[8]See valuable article on the Navy, 3 U. S. Service Mag., 357.

[9]For the cost of the principal vessels see Appendix D, and for fuller details, Annual Rep. of Sec. of Navy, 1895, pp. 340-367; Naval Appropriation Bill, 54 Cong. 2 Sess. No. 3009.

Concerning the economy and efficiency of consolidating the bureaus, see Rep. of Sec. of Navy, 1899, and Rep. Wheeler's speech, 34 Cong. Record, 1544.

See also Annual Rep. of Secretary Long for 1899, and Rep. of Naval Com., 56 Cong., 1st Sess., No. 930, and instructive speech of E. H. Driggs, April 16, 1900, 33 Cong. Record, 4623. This speech also makes a comparison between the cost of private and public construction, p. 4630.

[10]Officers are educated for the navy in the naval school at Annapolis. Eleven are annually appointed by the President, ten at large and one from the District of Columbia. One is annually appointed by the Secretary of the Navy for each congressional and territorial district on the recommendation of its representative. The annual compensation of a cadet is $500 and one ration, 30 cents per day.

[11]See Rep. on Operations of the Naval Militia, Navy Rep. 1895-6, p. 45; Annual Reports on the Operations of the Naval Militia made by direction of the Secretary of the Navy; Report of Officers of U. S. Navy in Ann. Rep. of Ad. General of N. Y. for 1894, p. 19, a Naval Militia and Naval Reserve, by J. W. Miller, 12 Forum 262.

[12]See E. Stewart's article, 7 Bull. of Dep. of Labor, 721, on the Rates of Wages paid under public and private contract.

CHAPTER IV.

NATIONAL EXPENDITURE FOR PENSIONS.

1. Liberality of the national government.
2. Importance of the subject.
3. All who were injured and the survivors of those who died or were killed should be pensioned.
4. True ground for granting pensions.
5. Same subject.
6. Old age pensions.
7. Who have been most active in getting pension legislation?
8. Indiscriminate pensioning is a dishonor to the worthy.
9. Amount of expenditure.
10. Should money be borrowed to pay pensions?
11. Expenses of military hospitals.

1. Closely related to National defence is the pensioning of persons who have served in the army and navy during the war.[a] Pensions have been granted by other governments, as rewards for unusual feats of valor, for disability and for long service, but not on such broad terms as by the United States.[1]

2. The subject is one of the highest importance—first, because justice should be done the deserving; second, because the numerous abuses of the system should be as speedily as possible lopped off; third, because two-fifths of all the public money is now spent for pensions.

3. No one questions the justice and desirability of pensioning all who were injured in the public service, and all who are dependent on those who were killed or who died in public service. Congress has been severely criticised for passing far beyond these limitations.

4. Let us, then, begin by finding out on what principle pensions can be sustained. Those who served with-

out harm and have received their full reward are entitled to no further compensation. If any contracts relating to bounties or other matters remain unfulfilled by the Government, it should fulfill them in letter and spirit. But when this has been done, gratitude, not justice, is the only sound basis for doing more.

5. True, indeed, those who have taken part in every worthy war have performed a great service, which no one should seek to lessen or forget. Yet those who took part in the last Civil War simply performed a service, a duty, to which as citizens they were liable, and which would have been performed, if not willingly, then as a compulsory service. With many, a willing or unwilling service was imperative. A cashier in a bank who risks his life in defending the treasure confided to his keeping is rightly rewarded, because his duty to manage its business does not require such exertions to protect its property. A policeman neither receives nor expects any reward for an injury sustained while performing his duty. Every physically capable member of government is a policeman, under obligation to render war service, if it be demanded, during some period of his life. He may or may not engage in active service, yet it is not for him but for his government to say when he must serve. Happy and fortunate is one if not required to perform it; but when the command is given, the dreadful character of the service is no excuse for disobeying or reason for expecting an unusual reward for doing one's duty.[2]

6. It is sometimes said in defence of the present system that every person who went to the war was physically injured, and, though bearing no evidence of injury on his return, it will appear, and therefore the Government has done no more than it ought in giving pensions to all who have received them. It is doubtless true that in very many cases the severe, unusual life of the soldier impaired his vitality, though this effect did not at once appear. As he grows older there comes the unwelcome

discovery. On the other hand, physical decay is the inevitable outcome of advancing years. In many cases it is the effect of irregularities. Thus the question becomes difficult—nay, often impossible—to decide. Is the disease or weakness the effect of service as a soldier, or of subsequent irregularity, or of both? And if it is the effect of both, to what degree has military and civil service contributed? There is, then, a good reason for giving every soldier a pension for general disability incurred in the service, and so it has often been granted by the leading governments of the world. It also follows, from what has been said, that the time or age at which this should begin must be arbitrary, for it certainly would not be practicable to ascertain a time for beginning by an examination, however careful. of every case.

7. Who have been the chief agents in securing pension legislation? None will dispute the amazing activity of pension agents. Another class favoring pension legislation are travelers who are trying to ascend the steep and sandy hills of politics. The war party was the first to start in the race for increasing pensions, but it was quickly seen that in this both parties could run and with equal skill, and at all times the one has been as vociferous as the other in shouting on the housetops for larger pensions and equally facile in excusing its conduct in private. Both parties on more than one occasion have presented a very ludicrous appearance to the outside world in their attempts to take care of the "old soldiers." Their conduct and motives have been well understood, and many a soldier has speedily forgotten the efforts of his real or pretended benefactors, not even remembering them with his votes. Indeed, on many occasions have politicians, unable to conceal their disappointment, accused the "old soldier" of ingratitude.

8. Finally, the present indiscriminate pension system, rewarding so many alike, whether injured or not, dishonors those who in justice are entitled to further recogni-

tion. The Government should act as an insurance company, promising and expecting to pay for the injury sustained by any one in its service, and to his family after his death. If only such were paid, then indeed they would be regarded with more respect and reverence than is now entertained toward almost a million pensioners. For the uninjured, for the man who simply performed his duty voluntarily, which otherwise would have been compulsory, there ought not to be the same feeling as for the victim of the struggle. To put him in the same rank with the injured is to reduce the latter to a lower level.

9. A review of general and special pension legislation shows that it rests on no particular principles. The system has grown until it forms a large part of the annual expenditure of the Government. The total amount thus far expended is $2,469,731,366,[3] or nearly the amount of the interest-bearing debt when it was at the highest point.

10. As the cost of the system is growing heavy, it has been proposed that the present generation should borrow the money needed to pay pensions, throwing the burden of paying them on others. A more ludicrous outcome of the system cannot be imagined. The principle on which the increase of pensions has been founded is the present ability and willingness of the people to maintain them. But this profession can no longer be made if another generation is to be saddled with the burden which, as far as any obligation exists, the present generation ought to bear. The larger portion of the great sum now annually paid is a gift, and not the fulfillment of any contract or duty.[4] Plainly, if the Nation is too poor to give, it ought not to indulge in the pretence of giving. Dependents of one class ought not to borrow to pay dependents of another. This plan outrages all sense, and if once adopted might lead to endless expenditure. Nothing is easier than to contract bills for others to pay. Such a

policy is disgraceful and without excuse, except as far as expenditure is based on obvious necessity.

11. The Government maintains several military hospitals at an annual expense of more than $4,000,000,[5] which rests on the same grounds as the expense for pensions. The Government is expected to take care of all who were disabled in its service, and the question is not concerning its duty in this regard, but simply the mode: whether this shall be done through hospitals of its own or in other ways.[6]

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[a]The expenditure growing out of the Civil War from 1861 to 1879 was $6,189,929,908. For details of this, see Senate Document, No. 206, 46 Cong. 2 Sess.

[1]"The foreign pension codes are based upon this idea of the duty owed to the State, and that the same is to be rendered without regard to pension, save in case of disability or long service, and of the right of the State to demand the services of every man capable of bearing arms without regard to any other than a disability pension, and that the pension itself is a mark of extreme honor, reward of long service or distinguished ability." Com. Black, Ann. Pension Rep. 1887, 9.

History of Military Pension Legislation in the U. S., by W. H. Glasson. Columbia University Studies in History, etc., Vol. 12.

[2]"Every citizen owes to his country the duty of defending its chosen government, when endangered, against all foes, at the peril, and, if need be, at the sacrifice of his life. Whoever does this freely and promptly, as soon as the occasion arises, does patriotically what his duty requires. Such men deserve their country's gratitude, and a grateful people, admiring their courage and devotion and thankful for the preservation of their country and its chosen institutions, will not allow such soldiers to suffer for the sacrifices they have made without such reasonable relief as can, under the circumstances, be given. This is the basis for pensions, and the only rational justification for expending the revenues of the government, which are drawn from, and belong to the public, in the way of pensions to soldiers." Com. Lockren, Ann. Pension Rep. 1895, 13.

[3]See Appendix C, for the annual cost of pensions.

[4]"I deny that a statute of this kind is in the nature of a contract, it is a mere provision fixing the bounty or gift to be made by the Government." Senator Sherman, 15 Cong. Rec. 5478. See Senator Hawley's remarks, Id. 5040.

[5]National Home for Disabled Volunteers for 1899.

Central Branch	$598,692
Northwestern Branch	288,790

Eastern Branch	271,194
Southern Branch	386,927
Western Branch	294,269
Danville Branch	101,250
Pacific Branch	243,623
Marion Branch	221,448
Clothing	228,773
Salaries and incidental expenses	41,730
State or Territorial homes for disabled volunteer soldiers	1,032,345
Support of Soldiers' Home	87,838
Soldiers' Home, permanent fund	141,400
Soldiers' Home, interest account	80,905
	$4,088,128

[6]"In England pensions are given to soldiers and sailors or those dependent upon them, officers of the courts, political officers, colonial governors, and pensions in the diplomatic service." 18 Am. and Eng. Encyc. of Law, 284.

See Report of Pension Com. Black, 1887, for description of foreign pension systems. Most of the speeches of members of Congress are in favor of extending the pension system. The act of 1879 providing for payment of arrears of pensions absorbed vastly greater sums than the committee who reported the measure indicated. See debate in 8 Cong. Rec. 1981-1984, 2033-2040; 2042-2051, 2052-2058.

Some of the articles in the magazines have sustained the action of Congress, see those by G. B. Raum on Pensions and Patrictism, 153 N. Am. Rev. 204; The Pension Office, 28 Lipp. Mag. 200. The magazines more generally have criticised pension legislation with varying severity. See articles, A Raid on the Treasury, L. W. Bacon, 6 Forum 540; U. S. Pension Office, Gaillard Hunt, 65 At. Monthly 18; Arrears of Pension Bill, 42 Nation 371, 40 Nation 172; Degradation by Pension. A. R. Foote, 12 Forum 423, 15 Forum 452; Pensions—Time to Call a Halt, H. W. Slocum, 12 Forum 646; Anomalies of our Private Pension System, T. F. Dennis, 15 Forum 377; Half a Million Dollars a Day for Pensions, J. De W. Warner, 15 Forum 439; Grand Army as a Pension Agency, C. McK. Leser, 15 Forum 522. A valuable communication from the Com. of Pensions concerning the cost of establishing a service pension appears in 28 Cong. Rec. 4485.

CHAPTER V.

NATIONAL EXPENDITURE FOR LEGISLATION.

1. Legislation is a needful expenditure.
2. Salaries and mileage of Senators and Representatives.
3. Clerk hire, stationery and incidentals.
4. Special investigations.
5. Other expenditures.

1. Legislation is a needful expenditure. Expense has been lessened in some of the States by holding biennial sessions, and many other benefits besides this would follow were the National Government to imitate their example. Especially the business interests of the country would welcome the change.

2. The chief expense is for the payment of salaries and mileage to Senators and Representatives. Each member is paid $5,000 a year, and twenty cents per mile for travel from his residence to Washington.

3. Besides this expenditure, a large sum is expended for clerks and other employees of the two Houses, for stationery and incidental expenses.[1] Of late years expenditure has been increasing for clerks and committees. Some members contend that each member ought to be

[1]In the way of illustration, at the 1 Sess. of the 54 Cong. Senator Peffer delivered a very instructive speech on the rapidly increasing expense of congressional funerals. Senator Hearst's funeral thus far leads the list, costing $21,322. The contrast between its cost and that for the funeral of Senator Malbone, of Rhode Island, in 1809, is noteworthy. He was buried in the Congressional Cemetery and most of the Senators attended. Two of the items charged by the committee having direction of the funeral were for 16 pounds of crackers, $3.00, and 11¼ pounds of cheese, $2.81. The committee to audit the contingent expenses of the Senate allowed the cracker item, but rejected the other as excessive. 28 Cong. Rec. pp. 145, 146.

provided with a clerk, as his correspondence is largely of a public character, which cannot be answered without such assistance. Without it, doubtless many an inquiry would go unanswered, either from lack of time or inclination. Again, even though many inquiries are useless, proper courtesy and respect for the writers perhaps require that their inquiries should be answered. But instead of providing clerks at a specific public expense, would not the plan be better to add to the pay of members for clerk hire, stationery, postage and all other incidentals? A contingent expense ought to be lopped off whenever this is practicable.

4. Another item of expense, which has been constantly increasing, is for special investigation by one branch or the other, or both branches of Congress. Some of these are somewhat technical, and could be more efficiently made by a commission composed of men skilled in the subject. A good illustration is the investigation made by a joint committee of the Senate and House to investigate into the effect of repealing the duty on grain alcohol used in the arts.[2] Other investigations are known as junketing expeditions, disguised methods of enabling the members to indulge in a pleasure trip at the public expense. Other investigations have a darker and even more questionable origin; and one of these is now in progress and known as the Industrial Commission.[3] Its questionable purpose was clearly exposed during the debate on its creation; its meagre and unsatisfactory work was afterward condemned when the commission asked for another appropriation; and it is exceedingly difficult to show who have been benefited by it except the members and a few others who were behind, urging the appointment of the commission. The work of many commissions has proved so nearly worthless, whether poorly or well done, in improving legislation that there is a growing sentiment against making expenditures for this purpose.

5. The legislative expenditures for 1899 may be thus summarized:

Salaries and mileage of Senators	$484,735
Salaries of officers and employees of the Senate	466,652
Reporting the Senate proceedings and debates	25,000
Other expenditures of the Senate	309,872
	$1,286,662
Salaries and mileage of members and delegates of the House	1,926,000
Salaries of officers and employees	405,514
Clerk hire, members and delegates	415,704
Compiling testimony in contested election cases	5,128
Official reporters and stenographers	11,205
Other expenditures of the House	299,093
	$3,062,644
Payments for contesting seats in Congress	$76,546

[2]See the elaborate and exceedingly interesting report made by this committee in which was shown among other things and with great clearness, the far reaching and contradictory effects of the tariff on alcohol. Senate Report, No. 411, 55 Cong. 2 Sess.

[3]For criticism of its work see Senate debate, 33 Cong. Record, 5237, 6635. Great doubt concerning the usefulness of the commission was expressed at the time of its creation. The true reasons for creating the commission were largely of a personal and political character.

CHAPTER VI.

NATIONAL EXPENDITURE FOR JUSTICE.

1. Expenditure for justice is necessary.
2. Little attention is paid to the subject.
3. Because less money is involved in such legislation.
4. Superiority of the federal, over the state system of justice.
5. Judicial salaries.
6. Number of Circuit Courts.
7. Number of District Courts.
8. Payment of marshals.
9. Other expenditures.

1. Next to expenditure for defence, expenditure for justice is the most needful. A swift, effective and inexpensive mode of awarding justice to every citizen is one of the highest duties of the State.

2. Notwithstanding its obvious importance, to very many other matters is precedence given. The truth which becomes more and more apparent, as one explores the history of governing, is that power finally centres in a class of people who are determined to get something out of the Government in the way of money or a living for themselves. Many of our laws are attempts to secure greater economy in governing, but they are opposed by those who favor an increase of expenditure, thereby enabling themselves, their friends and assistants to extract more from the public. The course of legislation varies like a pendulum, swinging from one side to the other, as the party of reform and economy, or the party of wastefulness, is in the ascendant.

3. Remedial laws, therefore, though of supreme importance and of deepest interest to the people, have been less interesting to legislators than almost any other legis-

lation. Analyze the history of legislation, and the fact appears that in almost every bill some person or interest was to gain or suffer by its enactment or defeat. Some office was to be created or abolished; some salary raised or reduced; contractors were to gain or lose. Yet corrective legislation is less infected with the mark of money than almost any other, and so a small number have been interested in improving it.

4. The Federal system of justice has maintained a marked superiority over the State systems, for one obvious reason: judges are appointed for life.[1] Though judicial compensation, considering the work performed by judges and their capacity to earn far more in practicing their profession, is very small, yet highly competent men are easily found, because their appointment is for life, adding dignity to the office, insuring independence of action and consideration above sordid gains and interests.

5. The highest court of the United States is the Supreme Court, consisting of nine judges, each receiving an annual salary of $10,000. The United States is divided into nine circuits, and to each circuit is assigned a Supreme Court judge, who performs some duty as a Circuit judge. Next may be mentioned the judges of the Circuit Courts of Appeal, who try cases that come to them on appeal from the District and Circuit Courts of the United States. Their circuits are similar in extent to those of judges of the Supreme Court. Thus, there are nine Circuit Judges of Appeal. A Circuit judge, however, is usually assisted by two judges from other Circuit or District courts. Each judge is paid $6,000 a year.

6. Next may be mentioned the Circuit and District Courts. There are nine Circuit Courts, which are presided over by nine judges. In these tribunals actions are begun for various causes.

7. The District Courts are more numerous. Every State constitutes a District, and some of the larger States are divided into two or three districts, so that in the

United States there are sixty-five District Courts. District judges receive an annual salary varying from $2,000 to $5,000 a year.

8. Marshals, who are the executive officers of the Federal courts, are important officers. They have been paid from the beginning until a recent date partly by salary and partly by fees. The fee system led to the grossest abuses, but all attempts to correct it failed until 1896.[2] Now, marshals and United States attorneys are salaried officers, and all fees received by them must be turned over to the clerks of courts, who in turn must account for them to the Treasury. It is still possible to make out false bills of the sums received. The plan in theory is right, and its efficient working depends on the selection of honest and capable men.

9. Besides the expenditures for judges and marshals are those for the clerks of courts, district attorneys, jurors, commissioners, and various miscellaneous items connected with prisons, etc.

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[1]"By and with the advice and consent of the Senate." For the meaning of these words, see a valuable article in 42 Nation 125.

[2]See Rep. Lacey's speech and statement of emoluments and expenses of deputy marshals for 1895. 28 Cong. Rec. 847. A few figures may be given. The deputy marshal of Oklahoma received $212,665; of Eastern Texas, $67,199; of Western Arkansas, $33,427; of Northern Alabama, $26,049; of Middle Alabama, $37,780. When Logan H. Roots was marshal of the Western District of Arkansas the expenditures of the District for 1872 were $321,653. See Investigation into Western Dist. of Ark. H. of Rep. 43 Cong. 1 Sess. No. 626, June 1, 1874. See also Rep. Swanson's speech, 28 Cong. Rec. 78. For the successful working of the new salary system, see Annual Rep. of the Atty.-Gen. of U. S. 1896, p. VII.

CHAPTER VII.

NATIONAL EXPENDITURE FOR THE INDIANS.

1. Amount of money belonging to the Indians.
2. The policy of the government.
3. Conduct of government agents.
4. Expenditures for the Indians.

1. The expenditure for the Indians is founded partly on contract, treaties with them for their lands, and partly on sentiments of justice and charity. The amount of money belonging to the Indians for lands sold at different times is $32,594,118. This is held in trust by the Government, and yields 4 and 5 per cent. interest. The income from this source for the fiscal year 1899 was $1,421,371.[1] Besides this income the amount appropriated in fulfillment of treaty and agreement obligations for the year was $3,318,334. The sum of $717,665 was also added as a gratuity. The income of the Indians for the same period was still further swelled by proceeds of labor, leases, etc., $688,871, making a total of $6,146,202. The entire amount appropriated by Congress for that year to the Indian service was $8,237,675.

2. Much has been written concerning the treatment of the Indians by the Government.[2] It is now believed that the wisest policy is to provide them to some extent with supplies; to allot lands to them as absolute owners, and thus destroy their tribal relations; to educate them and fit them for the duties of citizenship.[3] The public supplies are bought in the open market on specifications and bids, and agents are appointed to distribute them.

3. Many of these agents have proved unfaithful to their trusts, and the failure of the Government in this re-

gard has long been a daily theme for criticism. Far removed from their superiors, and beyond their ken, too often they have taken advantage of their situation and of Indian ignorance to practice on them the grossest frauds. The conscience of the nation has become stirred, and it is believed that in many respects the Government's conduct toward them has greatly improved.

4. The following table shows in detail the Indian expenditures during recent years:

	1895.	1896.	1899.
Pay of Indian agents	$49,215	$52,912	$77,808
Pay of special agents	10,069	13,673	.....
Pay of interpreters	10,000	9,880	19,442
Pay of judges of Indian courts	11,765	11,127	12,242
Buildings at agencies and repairs	36,503	24,160	29,680
Medicines and medical supplies	11,459	11,888	.....
Subsistence supplies	1,163,308	1,277,222	.....
Agricultural, miscellaneous supplies	688,181	722,436	.....
Transportation and storage	282,198	318,220	407,215
Purchase and inspection of annuity goods and supplies	29,466	28,114	.....
Payments of annuities in money	1,180,612	1,151,552	.....
Pay of regular and temporary employees at agencies	389,566	407,247	.....
Support of schools	1,961,415	2,134,265	2,447,102
To promote civilization among Indians, including Indian labor	84,373	122,130	.....
Traveling expenses of Indian agents	13,059	13,282	15,336
Traveling expenses of special agents	8,005	2,423	.....
Pay of Indian police	122,924	127,338	136,513
Stock cattle	19,968	75,472	.....
Survey of Indian reservations	48,256	41,904	.....
Indian inspectors	17,910	16,930	19,442
Indian commissioners	4,000	3,715	3,745
Agricultural improvements	25,716	53,904	.....
Miscellaneous	201,518	88,727	.....
Totals	$6,364,494	$6,712,898	.....

[1]For account of Indian Trust Fund. See report of Committee on Indian Affairs, 1899, pp. 519-528.

[2]"Every effort has been made to make the Indians independent and self-supporting. They have been given to understand that the Government will not feed and clothe them while they remain in idleness. On the other hand, encouragement has been extended them to take up a variety of occupations or to that assistance will be rendered in building a house, providing a team, agricultural implements, wire for fencing and grain

for seeding, as well as the supervision and counsel of a practical farmer to aid in the cultivation of crops. The carrying into effect of this policy has resulted in much good, and it is encouraging to note from the reports of the various Indian agents the many different ways in which Indians are earning their own livelihood. Where it is practicable to do so the Government gives them remunerative work. The Government paid last year in salaries to regular Indian employees over $400,000, and in addition thereto paid still larger amounts to them for miscellaneous work and for supplies raised by themselves."—Report of D. R. Francis, Secretary of the Interior, 1896, 37.

[a]See Appendix E for detailed expenditures concerning Indian schools. Since the report of the Indian Commissioner for 1896 no detailed statement of expenditures for the Indians has appeared, though the reason for the omission is neither obvious nor explained.

CHAPTER VIII.

NATIONAL EXPENDITURE FOR MAINTAINING HEALTH AND SAVING LIFE.

1. Province of government in caring for the health of the people.
2. Inspection laws.
3. Same subject.
4. Inspection of steamboats.
5. Same subject.
6. Expenditure for these purposes.

1. The question may be asked, What ought the National Government to do to protect the people from disease? And where shall the line be drawn between general and local action? Clearly there should be co-operation. With some diseases only the National Government can cope effectively. Accordingly, quarantine regulations have been established. Whatever may be said concerning the efficiency of those who enforce them, the duty of the Government to protect the people from the invasion of small-pox and other diseases of that character will not be questioned.

2. Inspection laws, intended to guard against the importation and use of unhealthful food, fall under the same service. Putting aside the question of the loss of life, surely the health of the Nation compensates for such inspections. It must be done by the Government, or not at all. To some degree individuals can inspect their purchases, but not fully.[1]

3. For the same reason the expenditures incurred by the Department of Agriculture for the inspection of cattle and the study of their diseases, etc., are needful. Pos-

sibly an objector might ask, Ought not this expenditure to be incurred by the States, instead of the National Government?[1] One reason which seems to justify a National expenditure is, no State could do the work so effectively. Perhaps State inspection might be made effective through united action.

4. Another expenditure, hardly less justifiable, is for steamboat inspection. The need of inspecting them will not be questioned, but perhaps one may ask, Why should this service be undertaken by the National Government rather than by the States? That it should be undertaken by some competent authority will hardly be questioned, as the object of the inspection primarily is to prevent accidents to life and property. On the other hand, ought not the owners to pay for the cost of the service?

5. The troublesome question arises, Suppose the Government has an incompetent inspector, and a conscientious steamboat owner, besides paying him, also pays for the service of another competent inspector whom he employs? Stated more broadly, suppose a person cares for his property, and complies with the law, why should he be compelled to pay for the support of an official who performs no service?

6. The amount expended for these purposes in 1899 was:

Life-saving service	$1,528,895
Steamboat-inspection service	331,678
Bureau of immigration	11,000
Quarantine service	175,894
Preventing the spread epidemic diseases	272,085

[1] See debate in Congress on pure food bill, especially 33 Cong. Record, 5376 and 6870.

CHAPTER IX.

NATIONAL EXPENDITURE FOR THE PAYMENT OF CLAIMS.

1. Nature of claims against the government.
2. Mode of determining their validity by a committee.
3. Organization of the Court of Claims.
4. Pension claims.
5. French spoliation claims.
6. Civil War claims.
7. Indian depredation claims.
8. Congress still acts on claims.
9. How Congress ought to act on them.
10. Reasons on which Congress acts in paying claims.

1. Besides the expenditures already mentioned, large sums are authorized at every session of Congress to be paid to various claimants against the Government. One of the peculiarities of a public claim is its immortality; no statute ever bars its collection.[1] Indeed, the age of a claim is often helpful to its owner, because evidence of its worthlessness has disappeared. Many a claim is paid whose fraudulent character could have been easily proved had it been presented for payment at an early date.

2. Claimants began to present claims from the very beginning of the National Government. A committee on claims was appointed to examine all presented and to report thereon. One can readily see what an imperfect tribunal is a committee of Congress for investigating such matters. The mode of proceeding is somewhat similar to that of a court; witnesses are examined and documents read. But the committees are composed of men charged with other duties; and so, however good may be their intention, they have not the time to conduct their work in a thorough manner.

3. This became so evident to members of Congress that in 1855 a Court of Claims was organized, to which many claims have been referred. But as Congress is not thereby prevented from investigating claims, a large number are always pending before that body.

4. One class relates to pensions which are claims rejected by the Pension Department because of fraud or imperfection in proof. Some of them doubtless have merit and are worthy of recognition by the Government. Other requests are presented, for example, by the widows of officers in the army and navy who have died since the Civil War.

5. The French spoliation claims have been pending for more than a hundred years. In 1885 a bill was passed referring them to the Court of Claims to determine what was due to claimants, or to their assignees. Claims to the amount of $1,258,460 have been paid by authority of Congress, and judgments amounting to as much more are awaiting the action of that body. The aggregate amount is supposed to be about $20,000,000.

6. Another class of claims relates to losses incurred during the Civil War through the depredations of the Union armies. One of the essentials of such a claim is loyalty on the part of the sufferer. The amount has been estimated at $22,000,000.

7. Another class of claims are known as the Indian depredation claims. They are made against Indians for property unlawfully taken by them through theft or by open attacks, or in other ways. Congress has ordered the ascertainment of the amount and its deduction from the sums due to the offending tribes. The Government has been paying the amounts awarded to claimants, but has hesitated to deduct them from Indian funds in its possession, and probably never will.

8. Every year Congress appropriates money for the settlement of claims, the payment of which is recommended by the Court of Claims or by committees of

Congress. One day in the week, Friday, is devoted by the rules of the House to this business. It is asserted that there are many claims against the Government which have never been presented. These, to some extent, offset the claims paid possessing very little merit.

9. A different method ought to be speedily adopted of dealing with the vast body of claims, either for money or land, now awaiting the action of Congress. If a claim has been examined in any judicial proceeding without finding a just foundation, or has been examined and reported adversely by a committee of either the Senate or House, surely Congress ought not to take favorable action before making still more critical inquiry. If the presentation of a claim has been long delayed, or adverse action has been taken by Congress on more than one occasion, its doubtful merit is emphasized. We would suggest, first, that on every claim which is the subject of special investigation there should be a report, and if an appropriation or other action is recommended, this should be taken by a separate bill, and never by one of the regular appropriation bills; second, that such action be taken within sixty days from the opening of a session, because (*a*) if it is worthy, its recognition and adjustment ought to be no longer delayed, and because (*b*) the latter part of every session ought to be devoted wholly to public matters; third, a claim that has been once examined and rejected by a competent tribunal ought not to receive the approval of Congress without a vote of two-thirds or other large majority of all the members present, or of the entire number; fourth, Congress ought not to examine into the merits of a particular claim which has not been before the Court of Claims or some commission appointed to inquire into its validity; fifth, if enough tribunals do not exist for making these inquiries, they should be established to the end that just claimants may get their deserts and Congress be relieved of thousands of bills that now choke every calendar, de-

lay action on more general measures, and cause constant and heated struggles between members to secure precedence for measures affecting particular constituents. If this were done, another gain, too important to be omitted, would be the saving to character, for many a reputation has been tarnished by advocating claims, on which both justice and expediency frowned, rather than incur the displeasure of some unreasonable constituent.

10. Among the unknown elements in Congress, when acting on claims, are those of sympathy and regard for claimants. A large number of claims are favorably considered chiefly because the claimant is old or in need, or has rendered at some time or other a service to his country. It cannot be said that appropriations based on such reasons are tainted with corruption. They are rather in the nature of gifts or donations. As the money does not come out of the pockets of the donors, and the people, so it is thought, will never miss the amounts paid, in truth, in many cases will never know what has been done, Congress is moved to favorable action. Of course, appropriations for many claims are based on just grounds; in other cases on none whatever. In the latter class of claims favorable action is secured by persistent efforts, which are rewarded by sharing in the plunder. One of the best known methods of securing payment of them is by combining the supporters of enough claims to overcome all opposition. This is the most dangerous method now in vogue in legislation, setting aside, as it effectually does, the consideration of each measure on its merits and paralyzing the action of those who otherwise would act independently and oppose improper measures.[1]

[1]The Chouteau claim is a fair illustration. It was paid many years ago, but the claimants were not satisfied. In the first session of the 54th Congress a bill was introduced in the Senate for its payment, a favorable report was made (No. 622) and the bill passed. It was tacked as an amendment to the general deficiency bill sent by the House to the Senate.

When this bill reached the President it was vetoed and Mr. Cannon in his subsequent explanation of the bill thus remarked concerning this claim. "It was paid in full. Full receipt was given by the contractors." In 1873 the contractor or his assignees sued in the Court of Claims to recover the amount and was defeated. "A well considered opinion was rendered. It was again sent by the committee on claims of the House under the Bowman act to the Court of Claims and turned down," the court saying that "the committee had no power to send it to them." 28 Cong. Rec. 6206. And yet notwithstanding the numerous decisions against its validity the Senate passed it as above stated.

[2]President Cleveland vetoed a bill for paying them which contains a brief history of the legislature on this subject. Sec. H. of R. report, 50 Cong. 1 Sess. No. 2961 and 28 Cong. Rec. 6205. A more complete account is found in Gray v. United States, 21 Ct. of Claims Rep. 340. For an explanation of so many reports in favor of paying the claims, see Senator Sherman's speech, Dec. 17, 1872, Selected Speeches 356. For another brief account, see 62 Nation 499. The amount thus far declared to be due by the Court of Claims is $3,500,130. Congress has made two appropriations for paying them of $2,395,997. See Rep. of U. S. Atty.-Gen. for 1899, p. 57, for further data.

See interesting debate on how claims are examined by the Com. of the Senate, 34 Cong. Record, 1420 and 1456.

[3]See Senate debate on Smithmayer claim, 33 Cong. Record 7025; House debate on Sparks pension claim, Id. 5815; civil war claim of State of Nevada, Id. 7357; cotton claim, Id. 5144; Underhill claim, Id. 6954; claim of letter carriers, Id. 6954; Omnibus claims bill 32, Id. 2646, 2657.

CHAPTER X.

NATIONAL EXPENDITURE FOR THE DISTRICT OF COLUMBIA.

1. Nature of the government until 1871.
2. How estimates are now prepared.
3. Expenditures for 1896.

1. When the Government of the United States took possession of the District of Columbia, in December, 1800, it was divided by Congress into two counties—Alexandria, on the west side of the Potomac, and Washington, on the east side—and the laws of Virginia were continued over Alexandria and those of Maryland over the other county. In 1871 the government of the District was radically changed, but after a short life of three years it came to an end, and the present form of government was established. By this, the President, with the advice and consent of the Senate, is authorized to appoint a commission, consisting of three persons, to exercise the power and authority vested in the Governor and Board of Public Works by the constitution of 1871. The president of the commission is an officer of the corps of engineers above the rank of captain, and the other two members are civilians.[1]

2. This commission submits to the Secretary of the Treasury annually estimates for all the expenditures of the District, the cost and maintenance of streets and bridges, charitable institutions, prisons, water, lights, etc. After their revision by the Secretary, the estimate is transmitted to Congress. When approved by that body one-half the amount is appropriated and the remainder is levied and assessed on "the taxable property and privi-

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leges in said district other than the property of the United States and of the District of Columbia."

3. The expenditure by the National Government for the year 1899 was $2,674,812. By this arrangement there is a much more efficient and economical government than ever existed before.

[1]A brief history of the government of the District of Columbia is given by Mr. Justice Bradley in Metropolitan R. Co. v. District of Columbia, 132 U. S. Rep. 1. For Legal Relation of the District of Columbia and United States, see Poland's Rep., H. of Rep., 43 Cong. 1 Sess. No. 627, June 1, 1874. See also Wilson's Rep., concerning the Affairs of the District, Mode of Business, etc., H. of R. 43 Cong. 1 Sess. No. 647, and Senator Morrill's Rep. 42 Cong. 2 Sess. No. 479, Dec. 7, 1874; Buckner's Rep. 44 Cong. 1 Sess. No. 702, June 26, 1876.

CHAPTER XI.

JUSTIFIABLE NATIONAL EXPENDITURE.

1. Need of classifying expenditures.
2. The postoffice.
3. How contracts are made with other than railroad and steamboat companies.
4. Contracts with railroad and steamboat companies.
5. The numbering of mail routes.
6. Cost of the star service.
7. Cost of carrying second-class matter.
8. Extension of the postal service. Subsidies.
9. Reasons for granting them.
10. Ought the government to conduct the telegraph service?
11. Ought the government to print postage stamps?
12. Classification and compensations of postmasters.
13. Clerks.
14. Extension of civil service rules to fourth-class postmasters.
15. Expenditure for public buildings.
16. How they have been erected.
17. Competition among architects should be invited.
18. The method that should be adopted in making this expenditure.
19 The amount that should be expended and further directions concerning its expenditure.
20. Further criticism on the present method.
21. Government printing.
22. Cost of printing.
23. The printing of bonds and stamps.
24. Patent office.
25. Salaries.
26. Receipts.
27. Mode of granting patents, etc.
28. Expenditure for fisheries.
29. Department of Agriculture.
30. How far is its work justified?

31. How far should experimenting go?
32. The life-saving service.
33. A national museum.

1. Under the threefold division of expenditure adopted in this work, those which may be termed justifiable will now be considered. Whatever classification may be adopted, all will admit that stronger reasons exist for making some expenditures than for making others. Though all can float on the broad sea of public welfare, all have not the same buoyancy. A classification of some kind is desirable, not only to bring into clearer relief the nature of the national expenditures, but also to deal with the question of paying them in a more intelligent manner than could be done if all expenditures were regarded as possessing equal merit.

2. The first expenditure to be put under the head of justifiable is that for conducting the postoffice. The items for 1899 aggregated $101,632,160, and the revenues were $95,021,384. At times the revenues have equaled the cost of maintenance; at other times there has been a large deficit. That the service ought to be self supporting is the opinion shared by almost all who have bestowed any attention to the subject.

3. For carrying the mails, in all ways except by railroad and steamboat companies, the Postoffice Department may make contracts for periods not exceeding four years. The proposals must be advertised, and the successful bidders must give bonds to secure the Government. In some cases contracts can be renewed, but on no more onerous terms than before.

4. In contracting with railroad and steamship companies, obviously there is no reason for advertising proposals. The compensation paid them since 1873 may be best shown by the following table:

Average weight of mail per day carried over whole length of route.	Rates under the act of March 3, 1873.	Rates under acts of July 12, 1876, and July 17, 1878.	Rates to land grant railroads, 80% of allowance to others. July 12, 1876
200 lbs.	$50.00	$42.75	$34.20
200 lbs. to 500 lbs.	....	....	....
500 lbs.	75.00	64.12	51.30
500 lbs. to 1,000 lbs.	....	....	....
1,000 lbs.	100.00	85.50	68.40
1,000 to 1,500	....	....	....
1,500 lbs.	125.00	106.87	85.50
1,500 to 2,000	....	....	....
2,000 lbs.	150.00	128.25	102.60
2,000 to 3,500	....	....	....
3,500 lbs.	175.00	149.62	119.70
3,500 to 5,000	....	....	....
5,000 lbs.	200.00	171.00	136.80
For every additional 2,000 lbs.	25.00	21.37	17.10

To ascertain the weight of mails, they must be weighed at least for thirty successive days once in four years.

5. All the mail routes are numbered. The route from Philadelphia to Pittsburg, for example, is numbered 110,001, over the line of the Pennsylvania Railroad Company. The length of the route is 353.80 miles, the pay per mile for transportation is $2,081.93; the sum paid for 1899 was $736,586.83, and the average number of trips per week was 88.35.

6. The star service is costly, for it is conducted with horses, many of the lines are long, and the revenues are small. The department is extending the lines, showing more economy and efficiency, yet often fails, by permitting contracts for carrying the mails to be sublet, to reward properly those who really perform the service. The practice has long existed of permitting speculators to bid for the contracts, sublet them to others who are willing to execute them for a smaller compensation, and retain the profit. During the debate in the House on the recent Postal Codification bill an attempt was made to confine bidders to persons along the routes

described in their bids and to restrain them from subletting their contracts, but the amendment failed.[a]

7. Another very costly item is the carrying of second class mail matter. On this, since 1887, there has been a heavy loss. One portion of it is known as "free county matter," which consists of newspapers, etc., mailed free to subscribers living in the respective counties of publication. The remainder consists of other periodicals to subscribers. The total matter carried in 1899 was 664,286,868 pounds, of which 440,234,281 pounds, or nearly two-thirds, belonged to the second class. The cost of carrying this was $37,218,742, about eight cents a pound. For carrying this amount $5,091,322 was received, involving a loss of more than $30,000,000 to the Government and people! Is there any reason for making all the people pay so much for the benefit of the smaller number who profit by this service.[1]

8. How far shall the service be extended, and how shall matter be classified for the purpose of imposing rates? Shall rates on matter of the same class be uniform, regardless of distance and unequal expense of service on different routes? These are questions of great importance. Hardly less so is the question of granting subsidies for carrying mails to foreign ports.[2]

9. The subsidies were granted for a twofold purpose, to compensate for the mail service, and to stimulate commerce. As President Cleveland did not approve this policy, the payment of most of them was withheld during his administration. The Government was authorized to make contracts for five years (first advertising for proposals) with the owners of American vessels, who were to be paid at the rate of $4, $2, $1 and 2-3 of a dollar per mile respectively for each voyage reckoned at the shortest distances between the ports constituting the routes. The varying compensation was based on speed, and to this end vessels were divided into four classes, those of the first class having a speed of 20 miles per hour; of the sec-

ond, 16 miles; of the third, 14 miles; of the fourth, 12 miles.[3]

10. Many strongly favor the public management of the telegraph service. If it can serve the people more cheaply and efficiently than they are served now, and if in so doing it would treat fairly those who have invested their capital and trained themselves to the business, then the Government would be justified in assuming this new function. But can it serve the people more cheaply and efficiently than existing companies? Does the Government possess any peculiar power by which it can surpass private companies in performing this work? The experience of other nations has not developed any.[4]

11. In this connection the question may also be asked, Ought the Government print its own postage stamps? The answer turns on the same inquiry, Can the Government save anything in making stamps of a similar quality to those which others are willing to furnish? It is asserted that a very considerable saving has been effected by their public manufacture. The evidence is quite satisfactory that the Government, though making some slips, has been a gainer in doing this work.[4a]

12. Postmasters are divided into four classes. The first, second and third classes are known as presidential postmasters, because they are appointed by the President. Their number on July 1, 1899, was 4,015. The fourth class are appointed by the Postmaster General, and number 71,007. The classification of the presidential offices is determined by their receipts; those of the first class are $40,000 to $600,000 and over; of the second class, $8,000 to $40,000; of the third class, $1,900 to $8,000; and the amount of compensation of presidential postmasters depends on the classification of their offices. The compensation of a postmaster of the first class is from $3,000 to $6,000 per annum; that of a second class postmaster from $2,000 to $3,000; while the compensation of a postmaster belonging to the third class is from $1,000 to

$2,000 per annum. The aggregate salaries of the postmasters belonging to these classes for 1899 was $6,931,000, and the total gross receipts of their offices was $75,058,725. The salaries of the fourth class postmasters are based on the tax rents collected and commissions on postage stamps cancelled at their offices.

13. With the exception of the assistant postmasters, cashiers and mere laborers, all employes at free delivery offices are under civil service rules. All employes in the Post Office Departmental service, with the exception of two confidential secretaries and mere laborers are also under the civil service rules.

14. It has been suggested that all the fourth class postmasters should come under civil service rules, and be essentially of a permanent character.

15. Another expenditure that may be classed as justifiable is that for public buildings. If buildings are not erected and owned by the Government, others must be hired. One of the reasons for erecting them is economy, as the rents paid by the Government in many places are often excessive. Another reason is that a Government building is a sign of national power. By some persons this reason may be regarded as fanciful, yet it is not without some force. Though the building of many of them is subject to condemnation on economical grounds, they are truly of a national character, for whatever be their place of location, the people everywhere may and do transact business in them. Thus the business transacted in the postoffice of New York city consists very largely of letters, etc., sent from all parts of the country, while the contents of a postoffice in a distant territory are received from other places. In like manner a federal court-house in Wisconsin is for the benefit of the people throughout the country, as much for a litigant in Maine who wishes to sue a person in Wisconsin as for a litigant in that State. In like manner a custom-house is for the transaction of the business of

importers regardless of their place of residence, and therefore is of the most general character. Every public building is truly national, and erected for the benefit of all without regard to their place of residence as much so as the war and naval academies. And for the same reason it may be remarked that those who serve in them ought to be chosen without regard to their State residence, for their duty is to serve the national public, and not the smaller public living in the city or State in which the building wherein their duties are performed is located.

16. Government buildings have been erected in various ways. Plans are prepared by the national architect, and many of them are built by contract, others by the Government itself. They have been often criticised as lacking variety and dignity; the architect has shielded himself by declaring that he has been too busy to give the requisite time to work out more tasteful or appropriate plans.[5]

17. It has been urged that, instead of requiring the national architect to prepare plans, competition should be invited and premiums awarded for the best plans. Had the Government pursued this policy, all the architectural genius in the country would have been put forth.

18. One of the most serious faults in this expenditure has been the utter lack of method in making it. To some extent, in the larger cities, where the business was heaviest, and the rents paid for buildings were greatest, the needs of the Government were first supplied. The erection of buildings in the smaller places has been made on no principle whatever save that of influence.[6] The Gov-

[6]See speech of J. W. Maddox, Feb. 28, 1899, 32 Cong. Record, p. 2,908; and debate on the subject, 2d, p. 2,595. The first session of the 55th Congress has since been known as the "public buildings session," because appropriations were passed for so many buildings. They were passed by concerted action. During the debate our appropriations for the erection of public buildings in the next Congress, Mr. Maddox remarked: "I am

ernment has not thought of selecting places where the greatest economy would be effected by having a building of its own, or of the size of the population, or of other important matters. Yet if buildings are to be erected everywhere, and all cannot be erected at the same time, it is evident that the work of construction ought to proceed by some principle. The following suggestions are offered. The appropriations for this purpose should be divided into two parts; for cost of sites and cost of buildings. The cities should be classified by population, and appropriations similar in amount should be made for buildings, excluding the cost of sites, in cities of the same class. Whenever practicable, appropriations for sites should be limited, and if costing more than the amounts specified, the place in which the buildings are to be erected ought to be required to pay the excess. Or, the appropriation for sites might be made on condition of getting suitable ones for the amount appropriated.

19. With this as a guiding principle a sum might be appropriated, whenever the condition of the revenues permitted, to be expended by the Secretary of the Treasury. In further defining his action in selecting places for buildings, he might be required to erect them,—first, in the capitals of the States; secondly, other places where the Government has the largest number of offices; thirdly, in places of the greatest population among cities of the same class; or fourthly, in the place in each State having the largest population until the circle of States was completed. It hardly need be added that they should be built

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opposed to this method of legislation for this reason: That in my opinion there is not a single measure here proposed which if it was left to stand alone before this House without the support of the combination could pass this Congress. Now, where does it get its support from? Necessarily from a combination of interests. That is exactly the way in which it comes." He further remarked: "We never have any minority reports from the public buildings and grounds committee or the committee on rivers and harbors." 32 Cong. Record, p. 2,578.

by contract, after proper advertisement for proposals, and contractors should be required to give bonds for the faithful execution of their promises. Thus, their cost could be kept within the original appropriations. Furthermore, as these buildings are not necessary, their construction might be deferred until times of depression, unhappily too frequent, in which it is difficult for men to find work. The Government could thus equalize to some extent the conditions of employment, and by so doing render a highly useful service to those who otherwise would not be employed.[7]

20. The utter lack of system in erecting them was impressively disclosed during the debate in the Senate in 1896, on the bill making appropriations for rivers and harbors.[8] Representative Wilson of Idaho, urged that as his State had no rivers and harbors to improve, the national expenditure ought to be squared by appropriating money for a building at Boise City.[9] Thus the everlasting vice of local legislation by Congress was once more illustrated. An objector was quieted, as so many have been before, by granting another local benefit. In this way the Government has been continuing for a hundred years, granting more and more special benefits and advantages to individuals, corporations, classes, sections and soothing the less favored with whatever sops depraved ingenuity could devise, instead of applying the true remedy, preparing the people for their private and public duties, and administering speedy and perfect justice. With the growth of population and increasing complexity of interests, the time is not far off when the discontent will rage so strong over this balancing-of-favors policy that the Government must abandon it and return to its proper sphere.[10]

[10]As an illustration of this balancing-of-favors policy may be mentioned the work of the Geological Survey. "It was started," said Senator Wolcott, "as an offset against the appropriations for rivers and harbors and the improvements of the seacoast that were being made year after year. It was

21. The publications of the Government are a justifiable expenditure. Perhaps they are even *necessary* giving the people the information they need and ought to have concerning the business of the Government. Formerly the printing of the Government was done by contract, and the establishing of the public printing office was a radical departure that encountered fierce opposition. The Government has been a gainer by the change. At present the printing office is filled with printers who belong to labor unions and who are under the civil service rules. At times the criticism has been heard that too many were employed, yet the judgment of those who are most familiar with the operations of the printing office is that, on the whole, the Government is more economically served than it was under the old system.[11]

22. The books are not attractive in style, yet are printed perhaps as well as they need be. Below is a table containing the rates of renumeration paid to most of the persons employed in the Government printing office.

			Daily pay.
Public printer	$4,500	Assistant foremen, two	$5.00
Chief clerk	2,400	Assistant foreman	5.00
Clerks, four	2,000	Assistant foreman	6.00
Foreman	2,500	Assistant foreman	6.50
	Per hour.		
Paper cutters	.31¼	Counters	.25
Paper cutters	.40	Counters	.35
Revisers	.53	Examiners	.25
Copy editors	.53	Feeders	.20
Copy holders	.40	Press feeders	.21
Makers-up	.50	Folders	piecework
Imposers	.45	Binders	.40
Compositors	.40	Helpers	.25
Pressmen	.50	Gold workers	.24
Electrotypers	.47	Feeders	.18¾
Stereotypers	.40	Sewers	.24
Helpers	.25	Piece sewers	piecework

thought the inland States should have some sort of compensation for the large appropriations made for other purposes in the other States; and we thought, until we grew old enough to know better, that it might be of help to us." 33 Cong. Record, 6735.

23. For a number of years the Government has printed its own bonds and internal revenue stamps. These are printed on steel plates, which are expensive. Formerly, much of this work was done by private companies, and was very profitable, and for several years they tried to break up the Government department of engraving and printing.[12] At last they abandoned the field, and the work is now done more cheaply by the Government than it could be by private contract. Of course, the profits which an outside company would have made is a prospective loss, but if this is gained by the Government, or distributed among its employes, then the change is justified. So long as the Government can do this work as well or better than private companies, and at a less expense, the door is closed against the criticism.[13]

24. Another justifiable expenditure is for the maintenance of the patent office. That the public recognition of the work of inventors, and the securing to them of some reward, are within the sphere of Government is so generally believed that the question may be passed without further remark. Legislation of this character has been enacted by every enlightened government in the world. Inventors are required to pay to the Government fees for making examinations and securing their patents. These have been changed at different times.[14]

25. The fees are more than sufficient to pay for the salaries of examiners and other officials connected with the department. The highest salary is paid to the commissioner of patents, who receives $5,000 a year, and the assistant commissioner, $3,000.

26. The receipts of the department for 1899 were $1,209,554, and the expenditures, $1,148,663, and the entire balance in favor of the patent office since its creation in 1836 is nearly $5,000,000.

27. The province of the Government in granting patents, the length of time for which the inventor should be

protected, how examinations should be made, the granting of extensions, are questions of the greatest practical importance.

28. The next expenditure to be considered is that incurred by the Bureau of Fisheries for the production of fish food in the rivers and the lakes of the country. The supply has been greatly increased through the highly intelligent efforts of this department. The work, too, seems to be singularly free from politics, and the results, in the popular opinion, have justified the expenditure. In many places salmon, trout, and other varieties of fish had almost disappeared; through the efforts of this department, rivers and lakes have once more become alive with wholesome food.[15]

29. Lastly may be considered the expenditures of the Department of Agriculture. This was formerly a bureau of the Interior Department, but in 1893 was changed into a department of its own, the eighth and last of the Executive Departments of the Government. The work of this department consists in distributing seeds, investigating animal products, guarding cattle against diseases, investigating into the production of food, and collecting agricultural statistics.

30. It may be said in justification of the Department that a similar department is supported by nearly every other government.[16] Most of its work has been in progress for many years. On the other hand, it may be asked, why should seeds be furnished to farmers any more than other seeds, wheat, corn, potatoes, to consumers.[17] Why should the Government engage in experiments concerning sugar making and refrain from experiments in milling wheat, or making iron or steel, or discovering new products in coal tar,—that exhaustless field for the chemist? It is difficult to justify all the work of this Department. A portion of it, relating to the inspection of cattle and food, seems to be amply justified on the ground of preserving the health of man and beast, but surely the work

of experimentation is quite beyond the ken of the Government except so far as this may be needful for the public defense, or to cope with disease. Can it be justified on the ground that half the population of the United States are farmers, and that the results of such experimentation would redound to the benefit of all? This may be so, but why cannot precisely the same argument be used by a person who wishes to have the Government engage in chemical experimentation in iron and steel making, or manufactures in general? Would not new discoveries ultimately benefit every one? Every body needs clothing as well as food; and if experiments were made regarding the production of wool and woolen fabrics, would not as many share in the benefits as the number who share in the production of sorghum, sugar, or any other agricultural product?

31. Again, if such experimentation were not undertaken by the Government, would not State and local organizations of one kind and another be formed for such work? Cannot this work be performed as well or better by other associations? Are not the cane and cotton growers of the South as able to conduct experiments relating to their products as the Government? May not the same remark be applied to experiments in the production of corn, wheat and other products?

32. Another justifiable expenditure is for the life-saving service. This item is very considerable, amounting to $3,114,506 for the year 1899. The service is conducted by the Treasury Department.[18]

33. Lastly, under the head of justifiable expenditures may be considered those of a national museum. Perhaps some would put this expenditure under the next head. It may be said that every enlightened country has a museum containing specimens of its natural products and curiosities relating to its national history and growth. Such an expenditure may be justified on the ground that every nation, if worthy of existing at all, is justified in

perpetuating the history of itself; if so, a museum is a part of that history. It clearly possesses an educational value, though not so immediate and direct as some other forms of education.

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[a] 31 Cong. Record, 1244, 1246, 1346, 1702, 1703, 1635, 1640, 3444, 3450.

Statement showing the cost per mile traveled of star service in the entire country and in the different sections on June 30 of the years given:

Year.	Entire United States.	First section, Eastern.	Second section, Southern.	Third section, middle West.	Fourth section, far West.
	Cts.	Cts.	Cts.	Cts.	Cts.
1875	9.96	7.16	8.33	7.33	15.09
1880	9.62	6	6.65	5.55	14.36
1885	6.52	5.56	5.19	6.02	8.14
1890	5.46	5.31	4.47	5.44	7.02
1895	4.85	5.18	4.07	4.91	5.32
1900	3.87	3.79	3.30	3.39	4.45

First section—States of Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, Connecticut, New York, New Jersey, Pennsylvania, Delaware, Maryland, Virginia, and West Virginia.

Second section—States of North Carolina, South Carolina, Georgia, Florida, Alabama, Mississippi, Tennesse, and Kentucky.

Third section—States of Ohio, Indiana, Illinois, Michigan, Wisconsin, Minnesota, Iowa, and Missouri.

Fourth section—States and Territories of Arkansas, Louisiana, Texas, Indian and Oklahoma, Kansas, Nebraska, South Dakota, North Dakota, Montana, Wyoming, Colorado, New Mexico, Arizona, Utah, Idaho, Washington, Oregon, Nevada, California, and Alaska.

[1]Every annual report of the postmaster-general for many years has clearly shown the need of correcting this great abuse, which has been followed by a report of the postal committee of the house against it and a debate.

For a valuable report on the cost of carrying the mails, profits to railroads, why they are opposed to a reduction for carrying them, etc., see House Report, No. 991, 55 Cong. 2 Sess., also an interesting debate in the Senate thereon, Cong. Record, May 6, 1898, 31 Cong. Record, p. 5,200; also Senator Butler's speech, May 12, 2d, p. 5,413; also Report of Joint Postal Commission, Jan. 14, 1901, 56 Cong. 2d Sess., No. 2284, and reports Nos. 129, 130, Senate Mis. Doc., Vol. II, 55 Cong. 3d Sess.

For report on increasing the compensation of railway postal clerks, see Report No. 739, 54 Cong. 1 Sess.

For evidence of the abuse of mail facilities by sending roll-top desks, carpets, saddles, harnesses, etc., as "official matter," see House Report, No. 875, 54 Cong. 1 Sess. The report does not show that any horses were sent as mail matter.

For the mode of making contracts with railroad companies for carrying the mails, cost of service, difficulties in ascertaining what ought to be paid, see a very informing speech by H. H. Bingham. 33 Cong. Record, p. 5,550.

Whether railway companies receive excessive compensation or not, see Report of Joint Postal Commission (above described) and speeches by Loud, Moody, H. C. Smith, 34 Cong. Record, 2475, 2635, 2336, and others.

[2]For a valuable report on subsidies for carrying the mails, see H. of R. 49 Cong. 1 Sess. No. 534, Feb. 16, 1886, especially the minority report.

Concerning subsidies to railways for furnishing special mail facilities, see Report of Joint Postal Commission and speeches especially of J. A. Moon and W. H. Fleming, 34 Cong. Record, 2257, 2259.

[3]Act of March 3, 1891, 26 Stat. at Large, 830.

[4]England has lost in eighteen years £7,335,897, or about $36,000,000, in conducting the telegraph service. An annual profit of £47,000 in the beginning has changed into a deficit of more than $3,000,000 a year. See E. F. Loud's speech and elaborate statistics in 33 Cong. Record, 6,756.

For literature on this subject, see an argument in support of the limited post and telegraph by the Postmaster-General together with certain appendices relating to postal telegraphy. Wash., 1890. Appendix H. contains bills, resolutions, reports, documents and speeches in Congress supporting and opposing postal telegraphy, 169.

[4a]Concerning the management of the bureau of engraving and printing, see elaborate investigation, Senate Doc., No. 109, 55 Cong. 3d Sess.

[5]See article, Government's Failure as a Builder, M. Schuyler, 17 Forum 699.

[7]Perhaps there has never been a looser appropriation for a public building than that for the naval academy. The House virtually took the matter out of the hands of the naval committee, which was proceeding in an orderly manner to acquire proper data for intelligent action, and blindly intrusted the entire matter to the Secretary of the Navy. See debate, 33 Cong. Record, pp. 4,785, 4,809.

[8]See Rep. Dockery's speech, June 10, 1896, 28 Cong. Record, 6,432.

[9]28 Cong. Record, 6,418.

[11]There was an interesting debate concerning the work of the printing office in which many important facts came out in the House Jan. 18, 1900, 33 Cong. Record, 984.

[12]See Phelps' Rep. on Printing of U. S. Notes and other Securities, 43 Cong. 2 Sess. No. 150, Feb. 16, 1875.

[13]The expenditures of the Department of Printing for 1900 were $4,730,211. Of this sum $15,085 were paid for salaries, $4,248,469 for printing and binding, $200,187 for Rep. of Sec'y. of Ag. for 1898, $119,416 for his report for 1899.

[14]At present the following fees are charged for the different services performed by the Government for inventors:

The principal patent fees are:

On filing an application for a patent, except in design cases, $15.

On issuing a patent, except in design cases, $20.

In design cases: for three and a half years, $10; seven years, $15; fourteen years, $30.

On filing a caveat, $10.

On an application for the re-issue of a patent, $30.

On filing a disclaimer, $10.

On an application to extend a patent, $50.

On the first appeal from a primary examiner to an examiner in chief, $10.

On an appeal from him to the commissioner, $20.

[15]Salaries of Fish Commission for 1899, $194,014; miscellaneous expenses, $176,686; expenses of the thirteen fish hatcheries in Colorado, Iowa, California, Georgia, Washington, Duluth, South Dakota, Montana, New Hampshire, New York, North Carolina, Tennessee, Massachusetts, Texas, Virginia, $46,297.

[16]Secretary Morton was strongly opposed to this work (see his annual report for 1896) and incurred the senatorial wrath especially for not spending the entire appropriation. There was an elaborate debate on the subject. (See Senate Res. 43, 28 Cong. Record, Index History of Bills and Joint Res., p. 106). Notwithstanding his reasons for not distributing them, Congress increased the appropriation at the next session. See also debate in the Senate over Ag. app. bill for 1801, 33 Cong. Record, p. 5029, also debate on similar bill for 1899, 31 Cong. Record, 1390; speeches of J. H. Davidson, Jan. 13, 1898, 31 Cong. Record, 5757, and D. H. Mercer, Jan. 13, 1898, 31 Cong. Record, 653.

[17]See Annual Rep. for 1893 for action of other governments in organizing and sustaining such a department, and Annual Report for 1895 for a detailed statement of appropriations for the department from 1878-94.

[18]Importance of the Light House Service. See Senator Sargent's Rep., 43 Cong. 2 Sess. No. 605, Feb. 4, 1875. Life-saving and coast-guard service, see Rep. Covert's speech, in 1878, 7 Cong. Record, 1664, and especially speech of T. Scudder, May 4, 1900, 33 Cong. Record, 7092, describing the duties of surfmen, their compensation and history of their work.

CHAPTER XII.

QUESTIONABLE NATIONAL EXPENDITURE.

1. The census.
2. It is not worth the cost.
3. Better ways for expending the money.
4. It is not a census.
5. What should be done.
6. When the government would be justified in extending census work.
7. Expenditure for education.
7a. Investigation of labor questions.
8. Postal savings banks.
9. Bounties to sugar growers.
10. Ship subsidies.
11. Grants of money and land to railways.
12. Evils from such grants.
13. Destruction of eastern farmers.
14. National land surveys.
15. Exhibitions.
16. Expenditure for rivers and harbors.
17. Condition on which they should be made.
18. Ought they to be made at all?
19. Is the lessening of the cost of transportation a sufficient reason?
20. Is this fair treatment to land transportation companies?
21. This reasoning does not apply to the Erie Canal.
22. Better results of making conditional appropriations to land transportation companies.
23. The present policy defeats its own end.
24. What the policy of Congress should be.
25. The building of reservoirs for farmers.
26. The collecting of trade information.
27. The Occidental Trade Commission.
28. A national university.
29. Advantages.
30. Same subject.

1. The first item of questionable expenditure that may be mentioned is the census. The Constitution provides that at the beginning of every decade the population shall be enumerated for the purpose of apportioning the representatives of the lower house of Congress. This constitutional mustard-seed has had an extraordinary growth, for the census of 1890 was hardly completed ten years after beginning work at a cost of $11,539,278, nor was less money and time required for the preceding census of 1880. It need not be remarked that the persons selected for this work ought to be competent and conscientious. An authentic illustration may be given of the work done by one of the census employes. It was thought desirable to collect information concerning the mortgaging of farms in the various States, and test counties were selected. In one of them the official, instead of making inquiries as he should, either of the persons who mortgaged their farms or of others possessing correct information, hired a room in a hotel, and, in imitation of the spider's mode of working, drew out the reasons day by day in a peaceful and noiseless manner from his inner self. He rarely went out, afraid, perhaps, of the sunshine or the rain. It is not believed that many of the census employes were as conscienceless as the one described, but enough is known of the work of the enumerators of population in some places to discredit greatly the information given by the government to the world in these stately folios.

2. Even if the figures are correct, the knowledge thus acquired is not worth the cost. Eleven million dollars is a large sum, expended for work much of which is obsolete, or too imperfect for use. It is true that a large number of persons were employed in collecting or manufacturing information; but did the gain to them justify the Government in incurring this expenditure? The cost of the census exceeded the endowment of every college

in the United States except three or four of the largest. Imagine the difference in results from an expenditure by one of these institutions and from the money thus spent for collecting the information contained in these twenty-five volumes!

3. Again, in undertaking the business of education, the first duty of the Government is to teach the people the rights and duties of citizenship. It will hardly be contended that the information thus collected can be utilized very extensively by the people. Only specialists can work with much success in this huge quarry. How much more might have been accomplished by expending $11,000,000 in diffusing information concerning the object of government, the rights and duties of its members, and in promoting the principles and love of justice!

4. Lastly, this is not a census in the proper meaning of the term. These ponderous volumes are a vast cemetery of figures, taken from the two worlds of fact and fiction, so naively buried together that no one will ever be able to separate them.

5. What evidently should be done is to comply with the constitutional requirement, and no more; the work of collecting information, needful for legislative or other public purposes, can be undertaken in better ways and at less expense by the different departments of Government.

6. We would not assert that the Government will never be justified in extending the census work beyond the constitutional limit. If its methods are improved so that the work can be done in a trustworthy manner, and results can be obtained that are worth the cost, then the Government may be justified, having gained constitutional assent, in going further. But it certainly is not, so long as the work is so imperfect.[1] Happily, Congress has at last learned the lesson and the census of 1900 has been kept within narrower boundaries. Let us hope that the census freshet will continue to recede

until it is confined within the limits intended by the makers of the Constitution.

7. From the census let us pass to the department of education. So far as any authority exists to do such work, it must be found, we think, imbedded in the authority of the Government to defend and preserve itself; and to this end the education of the people in all ways relating to good citizenship in its broadest sense—the best use of one's powers, mental, physical and moral—is within the scope of the Government. Admitting that all the information collected and diffused by the Government has a truly educational purpose, yet it is so remote, compared with what might be done, as to fall under the ban of criticism. It is true that the expense incurred for National education is not large, but the way is opened for limitless expenditures so long as no principle, no limitation, is set up to guide the legislator. Thus far nothing very important has been added by the Government to the world's stock of knowledge. For the most part information gathered by other sources has been put into new forms. Whatever may be its value, ought not the work to have been done by the States, cities and educational institutions?

7a. Another expenditure of a questionable character is for the department of labor. If such work ought to be done at public expense, are not the States and municipalities the proper functionaries? Ought not the National Government to keep true to its original purpose of performing those larger functions that cannot be performed at all, or less efficiently by the State? Surely there is nothing peculiar about the work of the Labor Bureau which renders the national performance of it more effective than any other. It is true that the Government has been fortunate in having its work conducted by a man of peculiar fitness, but this should not prevent any one from seeing the questionable nature of the ground itself occupied by the National Govern-

ment. The truth should not be disguised that the cause of labor, great and worthy as it is, possesses no peculiar feature which justifies the Government in singling it out for frequent investigation and study.

8. Another experiment, occasionally recommended by a government official, is the establishing of postal savings banks. The sad history of the British government's attempt to conduct such institutions, so succinctly described by Mr. Loud during the last session of Congress,[1a] ought to be a sufficient warning to our government. The British government is paying depositors a higher rate of interest than is earned on their money, but dares not lessen the rate—behold the strong shadow of the voters!

9. Another expenditure that may be classified as questionable are bounties given to manufacturers or producers to compensate them for anticipated losses growing out of changes in the tariff. Thus the sugar-growers were compensated when the duty on sugar was lessened several years ago and more than $40,000,000 were paid them to reimburse their real or imaginary losses. This surely is a dangerous principle for the Government to establish and maintain. Assuming that the granting of assistance was justifiable in the beginning, does it follow that, if it is begun by the Government, it must be perpetual? No one questions the cogent reasons lying at the foundation of our pension system; but suppose the revenues of the Government should greatly decline, would it not be justified in diminishing expenditures for pensions in common with expenditures for all other purposes? If therefore the expenditure for this purpose is not a perpetual, unchangeable obligation, certainly the granting of assistance, a gift, to manufacturers, producers or any other class is not of a higher character.

10. That the granting of a subsidy or bounty to American shipping is a questionable expenditure is

clearly shown by the wide difference of opinion on the subject. This contrariety of opinion is twofold: First, with respect to the general principle of granting a subsidy for such a purpose; and, secondly, if it ought to be granted, the conditions or terms. That the subject is in the questionable category is too clear for dispute. The arguments, however, in favor of and against national assistance need not be repeated here, and a reference to them must suffice. It may be added, though, that if the principle of special national assistance to any business, or industry be admitted, it is difficult to resist the conclusion that shippers make quite as strong a plea why it should be given to them as many others can do to whom it is given.[1b]

11. The wisdom of grants to railways,[2] both of land and money, may be questioned. The grants of land to the Union Pacific and Central Pacific, which form a continuous line to the Pacific, have been justified, as many think, because they have lessened the power of the Indians in marring the general peace. The same reason has been spread over the land grants to the Northern Pacific. Before the construction of that road the Indians constantly passed and repassed the boundary line, and could not be easily restrained from perpetrating outrages. The railway has proved an effective barrier, cutting off their retreat to the northern country, and thereby lessening their aggressive power. But this reason did not justify the Government in making lavish grants of land to other companies from which no such public advantages have accrued.

12. On the other hand, some great evils have had their origin in this policy of government. The first to be mentioned is the building of railroads far in advance of settled portions of the country, and sinking for a long period, or forever, large amounts of capital. The method of many of these companies was to establish ways of transportation, and then invite settlement; and this policy

was justifiable within proper limits. But they should not have gone so fast or so far. Instead of keeping only a short distance ahead of settlements, and thus of compacting settlers, railroads have been built at great expense all over the unsettled portions of the United States. If the Government had not tempted them with enormous grants of land, they never would have moved so wildly. The Government might have accomplished the same result, but in a wiser manner. It might have granted land to companies more slowly, or as needed for settlement. Had this policy been pursued, hundreds of millions of capital, now sunk, would not have been thus used. The population of the country would have spread over a smaller area and have been much denser, resulting in greater economies in maintaining the postal service, in establishing and maintaining churches and schools, highways—in short, in all matters pertaining to civilization. How much better would the sick have fared had the country been more thickly settled! In other words, our Western civilization has been the most wasteful imaginable, and with the least comfort and economy to the settlers.

13. These results of the government policy, though bad enough, are not the worst. To develop the railroads and earn dividends, not only their lands, but the lands of the Government, have been sold at low prices. The consequence is that the cheaper farming plants of the West have crushed the farming industry in the East, and are now laying low those in the eastern portion of the valley of the Mississippi. Had this colossal destruction been caused by private competition, the destroyed might indeed have mourned over their unhappy fate, but could not have complained of the injustice or shortsightedness of the Government. They would have regarded their fate as caused by one of the unknown perils of industry, against which no wisdom can always provide. For the Government to smite them down, as it has done, by furnishing others with cheaper farms, is a most extraordi-

nary policy, for which there is no defense. It is true that consumers have the benefit of cheaper products, both in the East and in other countries, but their gain does not justify the Government in destroying the farmers in the East without making compensation to them. And the Government still continues this policy without making a sign of granting compensation to those whom it has destroyed.

14. Another questionable expenditure are National surveys of land within State limits. Of course, the Government has a right to make surveys and examinations of its own lands, but we cannot conceive any justification in making surveys and examinations of State lands except for defensive purposes. The Government is no more justified in doing this than in doing any other work for a State building, a State house or highway. It is true the amount thus expended has not been large, but it is annually increasing, and the tendency is clearly in the wrong direction.

15. Of the same nature are expenditures for public exhibitions. Many of the nations have done likewise, and such expenditures have received the public sanction as possessing commercial value. Perhaps this view is correct; but if it is, to any degree, the United States has gone far beyond reasonable limits. Intercourse between States and countries is so cheap and easy that less cogent reasons exist than formerly for bringing together the industrial treasures of the world. Besides, many have learned by the more recent exhibitions that the newest industrial ideas are no longer freely put on exhibition. An eminent mechanic, who spent several weeks at the Chicago exposition, told the writer that in minutely examining every piece of machinery exhibited he only saw three pieces that were new to him, and that these three did not contain the newest ideas pertaining to the particular machines in which they were embodied. The latest perfected printing press was not there, because the inventor

did not care to put his ideas where they could be readily copied. From the industrial point of view, therefore, the later exhibitions are not so useful as were the earlier ones. Doubtless much is learned, many are stimulated, but whether they are worth their cost is another question. Great Britain was satisfied with one experiment of this kind, and Chicago wants no more.[4]

16. Another expenditure of this character relates to the improving of rivers and harbors.[5] At one time the Government built roads for military purposes, justifying its conduct from military necessity. It is evident, on the slightest consideration of this subject, that the benefits derived from such improvements are in some cases both local and general; in others only local. The assertion may be easily maintained that in places where the improving of rivers and harbors is most desirable, the local advantage is so great that the local Government would be willing to unite in defraying a part of the expense of the general improvement, and the willingness of a locality to do so might serve as a proper test to determine whether such an expenditure ought to be made. Philadelphia has been much interested, of late years, in improving the Delaware, and has contributed very considerable sums for this purpose. The same thing has been done in other places. May it not be safely assumed that this would be done in almost all cases where real improvements are desired. For example, to improve the Mississippi, would not the States to be especially benefited make an appropriation, if this were the condition of a National grant? Were National appropriations made on this condition, without doubt improvements not desired, of no real worth, would be eliminated from the list.[6]

17. The Government ought not to appropriate a dollar of the public money for the improvement of any river or harbor except on condition that the locality especially benefited shall contribute a considerable proportion for

the same purpose. Ought Congress to make an appropriation to deepen the Delaware? If so, let Philadelphia or the State of Pennsylvania, or the States of New Jersey and Pennsylvania, appropriate a similar sum. Ought an appropriation to be made for New York harbor or Hudson River? The cities surrounding these waters of the States of New York and New Jersey should contribute as much more. Ought the navigation of the Mississippi to be improved? If so, the States through which it flows or those which adjoin it should contribute a similar sum. If appropriations for improving rivers and harbors were made on this principle, the needed improvements in most cases would receive local support, while the others would fail. Perhaps there would be disagreement concerning the amount of money the locality ought to give; perhaps the percentage ought to be larger in some cases than in others, but as a local benefit is to accrue from every real improvement, so the principle of a local appropriation ought to be an indispensable condition to the obtaining of a National grant for this purpose.[7]

18. The question still remains, On what grounds can these improvements by the General Government be justified? One ground is to secure more perfectly the country against foreign attacks. Yet if the water of a river or harbor is deepened so that vessels can enter, is not the danger increased of foreign invasion through the same ways?

19. Again, it is said that such improvements are justifiable because they improve commercial intercourse. Is there no limit to the action of the Government in improving the modes of intercourse between the States? If it be admitted that the Government can build railroads, of course it can improve rivers and harbors. But would not many a man, and the public, too, be better off if less money was squandered on some of the so-called rivers and harbors and used in building and improving vessels? Again, if those who are engaged in commerce have a

right to ask the Government to deepen rivers, so that larger vessels can be borne on them, have not manufacturers as good reason to ask Congress to enlarge their plants and introduce the most improved machinery, so that they can fulfill more perfectly the needs of production?

20. The fact cannot be ignored that internal improvements are in many cases for localities, and not for all. It is contended that the advantages of commerce are diffusive; that by deepening a river so that larger vessels can enter and discharge their cargo, which is sold and distributed at less cost among thousands and millions, all are benefited. This is the foundation on which river and harbor improvements mainly rest. Suppose the deepening of rivers and harbors has the effect desired, of lessening rates of transportation, is this fair treatment toward competing companies which have invested large sums, never thinking that the Government would raise a fund by taxing them in common with others, and use it to destroy them? Is the Government justified in opening or improving a waterway for public use that shall compete with a private route, unless it makes good the damage it has caused? A private company may indeed run the risk of a competitor, but it is a very different thing for the Government to play the part of a rival, and with funds partly drawn from a competing company. A member remarked during the debate in the House on the River and Harbor bill in 1901, concerning the abolition of an appropriation for maintaining the navigation of the Missouri River: "The very minute you decide here to abandon the river will surely mark the time of a general increase all along the line."[8] Admitting the truth of the remark, is this the proper mode for the Government to regulate railway rates? If they are excessive, there is adequate State, if not National authority for reducing them. Must the Government incur this expense, to be paid by the people through taxation, when the wrong

can be corrected, if it exists, without any expense by compelling the company to reduce its rates? What a strange, wasteful method to apply for the redress of a wrong when the obvious and entirely adequate remedy can be applied without expense.[8]

21. The maintenance of the Erie Canal may be justified because it was built before any of the private companies. Having been built, the State is as fully justified in improving it as rivals are in improving their facilities for transportation.

22. Again, would not commerce be better served by public appropriations to those engaged in land transportation on the condition of reducing their charges below those now demanded by water transportation companies? The profits of land companies would increase largely were this done, and they would be happy indeed to receive such subsidies in exchange for lessened rates.

23. Lastly, the present policy of the Government is destructive of the very end it seeks to accomplish. To enable railroad companies to make lower rates, they must have more business; this is an indispensable condition of reducing them and maintaining an efficient service. To divert their traffic is to lessen their receipts and impair their ability to reduce their rates.

24. Congress, therefore, should aim at three things: First, to make appropriations for rivers and harbors conditional on appropriations by the localities that are to be specially benefited by them; second, to make none that are chiefly or wholly for individual benefit; third, to put all appropriations of this nature in the bill prepared for this purpose. The practice is growing of getting the largest sums possible in the regular bill, and afterward of smuggling additional appropriations into the Sundry Civil bill. This practice has not a single argument in its favor except in those years when the Committee on Rivers and Harbors prepare no bill containing appropriations for this purpose.[9]

25. An expenditure for building reservoirs to collect water that is to be used for private or individual irrigation clearly falls within the class of questionable expenditures. Small appropriations have been made for surveys and experiments relating to irrigation, and both political parties, in their campaign platforms in 1899, yielded to the wishes of those who believe in making appropriations for this purpose. A bill, or rather, an amendment to the River and Harbor bill, was therefore introduced at the second session of the Fifty-sixth Congress in execution of this policy. Though defeated by a strong majority, this is not the end of the matter; for the believers in such an extension of national assistance for private advantage are numerous and persistent. In a brief and strong speech against the bill, Mr. Grosvenor of Ohio said: "I know that the principle upon which you would take the money of my constituent and pay it out for the building up of any competitive power against my constituent is not just legislation." This argument, we think, is unanswerable, but, logically and correctly applied, how much national legislation would be smitten down by it? Long prominent as one of the most consistent and liberal donors of national aid to almost everybody and concern desiring it, Mr. Grosvenor at last has stopped and declares: "We have gone far enough in legislating for special interests." Though a most loyal party man, he easily disposed of the plank in the national platform by declaring that it was an "ornamental proposition," and consequently not to be seriously regarded.[10]

26. A questionable expenditure, but worth noting in this connection, was that recently incurred for obtaining information concerning the South American Republics. This was done to quicken commercial intercourse between them and the United States. The reason for discontinuing this expenditure has a much wider application.

It may be asked, Would not this investigation, though undertaken primarily in the interests of American producers and shippers, if yielding the results desired, have benefited all engaged in production, employer and employed? Probably. And by furnishing more work and thus adding to the purchasing power of the employed, would not farmers and all other classes engaged in supplying them with goods and products of every kind have been benefited? Probably. Assuming that these benefits would have followed, would the Government have been justified in making the inquiry? Might not the same thing be said in favor of Governmental inquiries and undertakings in other directions? It would seem that only two rules can be applied—either to withdraw entirely Governmental action from such inquiries, designed for the benefit of the people, especially the increase of their wealth; or to go to the other extreme and widen the functions of Government by including every class of persons for whom the Government can perform any useful service. Between these two limits can any firm middle ground be found?

27. Congress, having undertaken for the benefit of a special class to collect information on trade with the South American States through officials appointed specially for that purpose, the next step was short and easy, the creation of a commission of five individuals to exploit the Orient for the benefit of American production and commerce. The objectors showed that the collection of such information was one of the chief duties of the consuls residing in the Eastern countries, and when they were answered by the assertion that the consuls were incompetent, the assault was repelled by declaring that the President ought to appoint consuls who were competent to perform this duty. It was also shown that a large appropriation had been recommended to the Pennsylvania Museum for doing this very service; consequently either that appropriation or

the $75,000 recommended for the commission ought not to be passed. As the debate proceeded and the Congressional surgeons continued their dissection of the bill, its flimsy texture became apparent, that the life and pay of the commission might be extended an indefinite period, and that Senators and Representatives were not prevented from serving; in short, that this was to be one of the most delectable "junketing expeditions" ever projected by the many ingenious creators of these schemes. Yet the members saw such glittering temptations in the bill that it passed the Senate and came dangerously near passing the other body.[11]

28. When Gallatin was Secretary of the Treasury, rejoicing in 1807 over the speedy extinction of the National debt, his vision widened, and he planned a National university. Since his time such an institution has been often included in schemes for Governmental expansion. If this were done, several of the functions now conducted by the Government might be advantageously recombined —all the scientific work, the coast, land and geological surveys, the work of the fish commission, food inspection, the administration of health laws, hospitals, the work of the Agricultural Department, or so much as ought to be done by the Government, the National museum, the educational bureau, the library, the conducting of the Naval Observatory, bureau of statistics, the census and all statistical investigations relating to labor; in short, all work of a scientific or economic character that ought to be done by the Government. For example, an investigation pertaining to currency or tariff systems, desired by legislators, would be included within its sphere.[12]

29. Several obvious advantages would result from such a department or university, conducted by competent men. First, Congress would be relieved from many special investigations, and, by drying up these fountains of Congressional exploration, money as well as reputations would be saved.

30. Second, such investigations would be more thorough and useful conducted by competent, trained men without any thought of consequences to individuals, classes or parties. Thus far, through fear of unpopularity with the working class, the most needful investigations that ought to be made in the interest of labor have not been undertaken by any bureau, except that of Massachusetts. But a department, organized as suggested, ought not to be deterred by such considerations. Its success then would depend on the persons selected to do the work. If they were incompetent, elected on the pull-principle, as a reward for past or future service, then the institution would be only another addition to the number of disappointing ones now existing.

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[1]See debate on the last Census bill concerning the limit of collecting information. 33 Cong. Record, 1149.

[1a]House, May 30, 1900, 33 Cong. Rec. 6756.

[1b]See reports No. ——, 56 Cong., 1st Sess., debates 33 and 34 Cong. Record, numerous speeches; shipping subsidies by F. L. McVey, 9 Jour. of Polit. Econ., 24, Griffin's list of books on Mercantile Marine Subsidies, Gov't. Print. Office.

[2]See Table No. 79, 19th No. of Statistical Abstract for details.

[4]See Appendix D, 33 Cong. Record, 6787, 6793.

[5]The river and harbor bill for 1890, 1 Sess. 51 Cong. was fully debated, both in the House and Senate. For comparison of expenditures between the United States and France for improving water-ways see Rep. Burton's speech, April 6, 1896, 28 Cong. Rec. 3637. The first appropriation for rivers and harbors was in 1816. The first separate bill for that purpose was in 1826.

"It is a fact that is not attempted to be denied that the pending bill, as well as every appropriation bill that has been reported by the Committe on Rivers and Harbors for a number of years, carries large appropriations for the special interests of particular localities and individual property owners." Rep. Thomas, 34 Cong. Record, 1022.

For the local and personal character of some of these appropriations, see 34 Cong. Record, 1022. For an elaborate description of the mode of preparing one of these bills showing how the members of the committee take care of their own special interests, localities and States, see F. W. Cushman's speech, 34 Cong. Record, 1087. The light turned on the mode of preparing river and harbor bills chiefly comes, less frequently from the truly disinterested patriotic legislators than from the disappointed one who has failed to get as large appropriations

as he desired for his district or State. See the debate on the River and Harbor bill of 1901, in 34 Cong. Record.

For history of the local and national expenditure for Miss. levee construction, see Senate Rep. on Miss. River Floods, No. 1433, 55 Cong., 3d Sess. The entire expenditures for Rivers and Harbors to June 30, 1900, is $347,500,000.

[6]In Secretary Lamont's report for 1895 he remarks concerning the expenditures for improving the Mississippi that $29,558,699 had been appropriated since June 28, 1879. Of this sum $9,104,879 had been expended for building and improving levees, $3,782,222 for harbor improvements to protect the fronts of cities, nearly $3,000,000 in purchasing plant, etc., leaving but little more than one-third of the money expended (to be) applied to the actual work of deepening the channel. For the Missouri $8,896,000 had been appropriated at different times, "a sum quite disproportionate to the present or prospective commerce. With the modern means of quick transportation furnishing sharp competition it may be questioned if the familiar arguments in favor of these costly improvements for the purpose of regulating the rates of freight charges still obtains in a degree sufficient to justify at this time large expenditures in further attempts to provide and maintain a navigable channel in that river." Rep. of Secy. of War, 1895, p. 29.

[7]This idea is embodied in the appropriations for 1901 for building levees along the Mississippi River. See 33 Cong. Record, 7035, 7036.

See remarks of W. H. Moody, 34 Cong. Record, 2939.

[8]34 Cong. Record, 1024.

[9]The Senate Com. on Commerce, which reports the bill, also reports a full description of the plans that are to be improved. See Senate Rep., No. 1686, 55 Cong. 3d. Sess.

[10]34 Cong. Record, 819, 824, 870, 876, 1133, 1666, 2323, 2938. See also interesting debate in the Senate on making an appropriation for irrigating the arid lands of the West, 31 Cong. Record, 1395, and 32 Id. 2268. A reference may also be made to Water Supply and Irrigation Papers, prepared by the Geological Dept. House Docs., No. 108, 54 Cong. 2d Sess., and No. 220, 55 Cong. 3d Sess.; Surveys of Reservoir Sites, No. 116, 11 Senate Mis. Doc., 55 Cong. 3d Sess.; Usefulness of Reservoirs to Agriculture, same Vol., No. 124.

[11]For the history of and debate on this bill, see Index to 33 Cong. Record, Senate Bill, No. 1939; also same Vol., 3484, 5230, 5237, 6764.

[12]See article by C. W. Dabney in Science, Jan. 15, 1897. See Senator Chandler's speech on the Naval Observatory April 11, 1900, 33 Cong. Record, 3 ——; also his report on the subject, No. 1043, 56 Cong., 1st Sess.

CHAPTER XIII.

NECESSARY STATE EXPENDITURE.

1. The line between national and state expenditure.
2. In administering health laws.
3. In inspecting food products.
4. Unwillingness or incompetency of the states does not justify national action.
5. National and state defense.
6. National and state support of state troops.
7. Maintenance of justice.
8. How the expenditure should be borne.
9. The anomaly of two appellate courts.
10. A better mode of determining the increasing number of appeals.
11. Expense of legislation.
12. Contingent legislative expenses.
13. Expense of administering health and inspection laws.
14. Expense of education.
15. Expense per child in different states.
16. Limits of public aid for education.
17. How shall the line be defined between state and local expenditure?
18. The greater ability of the state to pay is not a proper reason for state action.
19. The existing zigzag line is based chiefly on political grounds.

1. The first question relates to the boundary of expenditure between the State and the national government. In two directions—providing for the common defense and administering justice—the national government has not passed its original boundaries. There has been some conflict of jurisdiction between the State and

national courts, but none giving rise to extended controversy or involving the expenditure of much money.

2. In enacting and administering health laws, inspecting cattle, food, etc., which involve considerable expenditure, no clearly defined lines have been drawn between the State and national governments. As we have seen, the national government is justified in doing those things which, by reason of its greater authority, it can do more effectively than any State, especially in enforcing quarantine regulations and in preventing the spread of diseases to persons and cattle, the importation of foreign adulterated or impure articles and the pollution of rivers.

3. On the other hand, why should it attempt to inspect foods, such as oleomargarine, produced and sold in the States? Ought not the national government to confine its work of regulation to foreign products with which it can deal more effectively than the States, because it has possession of them on their arrival and can prevent the landing of them whenever they are unfit for use?

4. Some of the directions in which the national government had invaded the sphere of the States were shown in a preceding chapter. We do not think that the unwillingness or incompetency of the States to act in collecting statistics, inspecting ordinary food products, making topographical or geological surveys, is an excuse for national action. For as soon as it transgresses its sphere and attempts to perform the part of assistant to State governments, then it will inevitably get into difficulty in consequence of its inability or refusal to serve all with equal efficiency.

5. The States supplement the work of the government in providing for defense by maintaining military organizations. These have much improved in recent years. How far the States ought to go depends partly on their ability to avail themselves of the national means of defense and partly on their own condition. Doubtless

in the near future more national troops will be kept in or near the larger centres of population; though there may be greater danger of rioting in some of the smaller places.

6. For many years the government made an annual appropriation of $400,000 to aid the national guard. Elsewhere is shown the number of soldiers enrolled in each State in 1896 and the allotment of this fund for that year. The regularity of this appropriation was broken by the Spanish war, but it will doubtless soon be renewed, and more effective regulations be established for the use of State troops by the national government.

7. Another necessary expenditure is to maintain justice. Though of supreme importance, it is more neglected than any other duty of State government. Many reasons contribute to the decline in the tone of modern justice. One of these is the election of judges by the people. After the experience gained since establishing an elective judiciary, the former plan of appointing judges by the chief executive power should be restored, with confirmation by either one or both houses of the legislature.

8. The expenses of maintaining justice may be divided into two items, for administering the criminal and the civil laws. The expense of criminal jurisprudence ought to be borne by all the people, as all are equally benefited in the protection thus afforded them. But the administration of civil jurisprudence rests on a different foundation. This relates to the recovery of property, which belongs not to the public, but to individuals, and therefore the expense of litigation as far as possible ought to fall on them. The wrongdoer ought to bear the entire expense, partly because he has broken the law, partly as a punishment for so doing. If this were done, a large portion of the expense for administering justice, which is one of the heaviest bills paid by the States, would be greatly lessened.

9. In two States only, New York and New Jersey, is a second appeal allowed for the correction of errors.[1] A second appellate tribunal is an anomaly in American jurisprudence, and doubtless will be abolished. The expense of maintaining it, especially in New York, is considerable.

10. The expense of administering justice has been swelling in most of the States in consequence of increasing litigation. In the determination of appeals from the lower tribunals several plans have been tried. The plan most generally adopted has been the creation of a second temporary tribunal, maintained at very considerable expense. The State of California has adopted a less expensive and more satisfactory plan. It has increased somewhat the number of Supreme Court Judges, who form two separate tribunals for the trial of ordinary cases and unite in the trial of the most important ones.

11. Another necessary expenditure is for legislation. Some States have economized by holding biennial sessions, which have proved to be quite frequent enough for the general good. One of the growing expenditures of both State and national governments is for conducting special investigations. Some of these have yielded good results; most of them have proved disappointing. The New York Legislature of late years has led off in creating such commissions, spending since 1879 $823,534 on legislative commissions, excluding contested election cases. In 1894 the bills amounted to $112,929, and $82,196 the following year.[2]

12. Some expenditures for legislation are regulated by law; others are contingent. In some States members are paid by the day; in others a fixed compensation is paid to them for the work of a session. Besides the fixed charges for legislation, are many contingent expenses for stationery, postage, etc., which good govern-

ing requires should be reduced as far as possible to a specified sum. In some States this is done, or the expenditures are covered by the fixed compensation given to members.

13. Another necessary expenditure is for administering health laws and kindred measures. In the report of the State Treasurer of Massachusetts for 1895 the following expenditures appear: Assayer and inspector of liquors, $1,200; inspector of gas meters, $3,945; cattle commissioners, $152,903; board of registration in pharmacy, $6,899; State board of health, $56,876, including $11,517 for the inspection of milk, food and drugs. Another item is for an investigation relating to the purity of waters, $29,301; for exterminating caterpillars, $127,300; for disposing of sewage in different places, $68,050; for investigating the liquor traffic, $2,853; and for draining marshes in order to improve the health of the surrounding inhabitants, $2,865.

14. Another item, and one of the largest expenditures by many States, is for general education. Several years ago, when it was first proposed to tax property for the support of common schools, many were opposed to the measure, but nearly all opposition has long since ceased. It is readily seen that if the government is to endure, the people, especially those who vote, must be educated, to be qualified for their duties. Those who cannot vote must be educated to qualify themselves for earning their living and thus save others from the expense of maintaining them. Both reasons, besides many others, furnish abundant justification for the State to put forth its best efforts to educate the people.

15. The expense of education is a heavy one; a few figures may be given showing the annual expense of educating children in the schools of different States.

TOTAL POPULATION, NUMBER OF CHILDREN 5 TO 18 YEARS OLD; PERCENTAGE OF THEM ENROLLED; EXPENDITURE PER CHILD, 1899.

Maine	656,800	161,600	81.45	9.33
New Hampshire	405,300	90,320	72.18	11.07
Vermont	329,100	81,130	81.88	11.94
Massachusetts	2,742,000	627,000	75.28	22.15
Rhode Island	419,700	102,300	63.07	14.22
Connecticut	889,100	209,300	72.32	14.60
New York	6,962,000	1,711,000	68.93	16.45
New Jersey (1898)	1,837,000	a 466,714	65.29	12.34
Pennsylvania	6,324,000	1,765,000	67.21	13.33
Delaware (1892)	173,200	48,830	67.93	5.79
Maryland	1,221,000	357,600	64.12	8.20
District of Columbia	293,200	74,380	61.24	15.44
Virginia	1,718,000	586,900	61.04	3.51
West Virginia (1898)	866,000	291,200	81.10	6.64
North Carolina	1,771,000	626,200	62.39	1.59
South Carolina	1,312,000	487,200	55.40	1.50
Georgia	2,132,000	756,900	61.99	2.58
Florida (1898)	515,000	171,100	63.37	3.69
Kentucky (1897)	2,016,000	660,500	76	4.17
Tennessee	1,958,000	670,000	74.62	2.59
Alabama	1,798,000	641,900	67.58	1.43
Mississippi (1897)	1,448,000	531,300	69.17	2.29
Louisiana	1,421,000	483,600	40.57	2.33
Texas	3,014,000	1,058,000	52.22	4.28
Arkansas	1,314,000	468,900	64.27	2.84
Oklahoma	355,400	107,300	79.84	5.76
Indian Territory	.....	.....	....	....
Ohio	3,953,000	1,122,000	73.88	11.69
Indiana	2,262,000	668,100	83.33	11.15
Illinois	5,062,000	1,431,000	66.07	12.53
Michigan	2,286,000	634,800	78.56	10.49
Wisconsin (1898)	2,107,000	629,500	69.25	8.58
Minnesota	1,834,000	530,700	72.38	10.46
Iowa	2,101,000	633,900	87.56	13.69
Missouri	3,063,000	952,800	70.12	7.07
North Dakota (1898)	352,300	96,180	70.05	17.64
South Dakota	456,200	133,600	73.73	12.31
Nebraska	1,188,000	357,800	77.62	10.45
Kansas (1898)	1,329,000	419,750	88.20	9.54
Montana (1898)	245,900	44,420	78.94	18.36
Wyoming (1898)	112,300	23,950	54.46	9.08
Colorado	617,300	135,800	80.12	23.34
New Mexico	185,400	52,020	52.24	3.99
Arizona	91,740	23,320	68.17	10.76
Utah	268,800	87,230	82.52	12.23
Nevada (1898)	41,080	8,980	81.78	23.02
Idaho (1898)	157,200	42,550	76.82	6.98
Washington (1898)	472,100	107,100	91.42	19.55
Oregon	378,100	101,900	86.80	12.47
California	1,506,000	357,200	70.95	16.43

16. The question most widely open for discussion is the limits of public education. Some maintain that general expenditure should be limited to education in the common schools; others that the higher education should be included, as well as commercial and industrial education.[3]

17. There is another question, Where shall the line be drawn between State and local aid to education? The answer is simply another application of the principle defining the functions of State and local government. In doing this we have no constitutional rule which so largely defines the boundaries between State and national expenditure. The counties, towns, boroughs, cities and other municipalities are of State creation, and are endowed with such powers as are deemed most expedient by the central authority. As the State has created them, so can the State destroy or modify them in the ways prescribed by the fundamental law. How far ought the governing of the people to be direct, by its own officers, and how far ought this to be indirect, by the officers elected by municipalities, is a question not admitting of a definite answer. Shall the State reverse its policy in road building, which until very recently has been done by municipalities, and build them, or assist in building them? Massachusetts and New Jersey have departed from the ancient course, and New York will probably soon follow. Can any principle be found for defining the line between State and local action? Those of efficiency and economy can be applied. If the State can act more efficiently and economically in building and maintaining roads than towns and other municipalities, it is clearly justified in thus acting. And this is the chief reason given for undertaking the building of roads by the State. In some of the townships near Philadelphia excellent roads have been economically made because the township supervisors were especially interested and knew how they ought to be made.[4] In many townships the roads

are exceedingly poor and repairs are made in an ignorant and wasteful manner. Shall the duty of road making and repair in Pennsylvania be undertaken by the State, or rather, shall the townships be awakened to the need of good roads and instructed in the correct methods of making them? Opinions differ, nor do we think that a definite answer, prescribing a rigid line of duty for the State and townships is the correct one. What would be the outcome of a State system? Some townships would be far more intelligently and economically served than they are to-day; others just as surely would not be. Is not the State, like New Jersey and Massachusetts, justified in trying an experiment, offering some assistance to those townships that are willing to avail themselves of it, perhaps appointing some officials to instruct local officers in building and repairing highways and bridges, requiring people to pay their road taxes in money, instead of permitting them "to work them out" on the roads?[5] The same answer must be given to the question concerning the part the State ought to take in educational matters. As it can act, on the whole, more wisely than localities, it is justified in taking some part in the management of the public schools. Generally, it is believed that local government is more economical than that of the State, and yet this belief is daily contradicted by the expenditures of many cities. Probably the belief does accord with the expenditures of municipalities that have only small revenues. In these the temptation to make a living from the public does not exist because the funds are insufficient.

18. The saving of expenditure as a reason for transferring work to the State will not stand criticism. This probably is the reason with some persons for transferring road building, the support of the poor (as in California), of the schools, and of local justice from the town to the State. This economy is no reason at all, for if the State is better able to pay for these expenditures by reason of

its larger revenues, an adjustment of them is the proper remedy.

19. In the past there has been much zigzagging between the State and municipalities in governing, but the changes have generally been based on political, and not on financial or economic reasons, and have been most frequent in the governing of cities.

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[1]In Illinois and Missouri a second appeal may be taken from the local appellate tribunal of Chicago and St. Louis.

[2]See Comptroller Roberts' report for 1897, p. xxxi.

[3]In this connection those who believe in the extension of the State service will be instructed by reading Prof. J. W. Jenks' article in 6 Polit. Science Q, 90, on the School Book Legislation of California.

[4]It so happens that about twenty years ago Mr. A. J. Cassatt, the president of the Pennsylvania Railroad Company, became interested in improving the roads in his township, and was chosen supervisor. Their excellent condition is chiefly due to his intelligent and zealous supervision. It is a good illustration of what an able, influential member of a community may accomplish when he is willing to devote some of his energy to the public service.

[5]See Prof. N. S. Shaler's American Highways.

CHAPTER XIV.

JUSTIFIABLE STATE EXPENDITURE.

1. The care of the insane.
2. And all requiring special treatment.
3. Hospitals.

1. The most prominent item that may be put under the head of justifiable State expenditure is the care of the insane. As every unfortunate is an unwelcome addition to the public expense, each municipality often seeks to shirk the responsibility whenever it can by throwing him on another town, county or city. These municipal conflicts concerning the support of the insane and the ability of the State to care for them in a more considerate and intelligent manner, have led many States to undertake their care and support. In some of them buildings and attendants are provided, and the particular municipalities from which inmates have come pay part of the expense. In other States the entire expense is borne by the State itself. In these there is a tendency among some municipalities to adjudge persons to be insane who are not, for the purpose of committing them to State institutions and escaping the need of supporting them at local expense. This can be remedied by making the expense of such persons chargeable to the municipality from which they come. Perhaps if this plan was adopted, persons would suffer from lack of proper treatment because they would not always be sent to these institutions. If worse results than those now experienced followed, then some other plan might be tried, or the present one be renewed.

2. The province of State assistance has a wider application. It is justified in supporting the blind and all others requiring peculiar treatment, for by drawing them together they can be more skillfully and economically treated than they can be separately or in small numbers. Some municipalities that have no insane or blind hospitals send them to private institutions for support and treatment at public cost.

3. These reasons do not justify the State in maintaining either directly or indirectly ordinary hospitals. First, the treatment of such patients does not require special skill that cannot be easily provided. Second, there is no need of erecting larger or more costly buildings than would probably suffice for local use. Third, those who are thus aided in most cases would be nearer their friends who, to some extent, would be interested in ministering to their wants and pleasure. Fourth, State aid removes its recipients still further from the donors, and interest in them is lessened. This is a potent reason against granting any public aid. At present, and especially in the larger cities, aid is rendered in a great variety of ways. Little or no system exists, and one of the consequences is a great waste of money and labor. Some thoughtful persons assert that more than 50 per cent. of the money privately bestowed never reaches those for whom it was intended. The first step to reduce order out of the existing chaos is to minimize public aid and officialism that private assistance may expand and do more effective work. Fifth, another reason for not supporting such institutions, either wholly or partly by the State, is that it is difficult to discover any principle on which such appropriations are made for them. To a large extent these represent scrambles for money; the institutions having the most influence getting the largest sums. It may be that State assistance in some States has become so general to all kinds of charitable associations, the sudden withdrawal of it would cripple them. If this

would be the effect of withdrawing it, the reason is the more imperative at least for reducing public assistance and basing it on a rational foundation. Many an association of this character is now resting on political quicksand, wholly uncertain whether $10,000 or $100,000 or anything can be extracted from the next legislature for its support. It hardly need be added that so long as such appropriations are based on no principle, they will be demoralizing to many, if not all, who are active in securing them.

CHAPTER XV.

QUESTIONABLE STATE EXPENDITURE.

1. The tendency of state governments is to expand their functions.
2. Offices ought not to be multiplied primarily for individual benefit.
3. Many public duties are not proper even if well performed.
4. Bank supervision.
5. The best examinations are private.
6. Public examinations are only for classes.
7. If good, why should not banks be required to pay for them?
8. Objections to requiring payment.
9. Is not the danger as great that the people will wrong the banks?
10. Should the banks be supervised because they are corporations?
11. Supervision of insurance companies.
12. Such examinations are unsatisfactory.
13. Ought not the state to pay for losses attending inefficient supervision?
14. Most of the companies are well managed.
15. What should be done instead of supervision?
16. Railroad supervision.
17. Labor bureaus.
18. Their failure.
19. Workingmen as administrators of the bureaus.
20. Danger of bestowing offices on men as representatives of classes.
21. Expenditure for a state library.
22. Inspection of mines and factories.
23. How far state supervision is justifiable.
24. Same subject.
25. It should not extend to property.
26. Maintenance of public police.
27. Same subject.

1. Many of the expenditures of State governments, we think, are on the questionable roll.[1] In thus extending their functions the motive to serve the public is not so strong in many cases as the motive to have the public serve those who are employed.[2]

2. It will hardly be questioned, as a political theory, that offices ought not to be multiplied *primarily* to make places for individuals. It is true that those who fill them are benefited; and if they receive good salaries consume more, and thereby benefit the grocer, the merchant, the transportation company and the public in general. In other words, their income is diffused among the public from whom it was taken; but it is not returned to the same persons nor in the same amounts. If public offices could be so united as to form a perpetual motion machine, every official obtaining a comfortable living, and every taxpayer receiving back whatever he paid as a grocer, merchant, transporter, farmer, that would be a truly ideal state of existence. Unhappily, the money drawn from taxpayers is not returned to them in such a manner. And since some receive more than others, the results of the action of the State are unequal and often unjust.

3. While many of the duties performed by State officials are supposed by some persons to be proper, yet, even if well performed, they are not justified, because they might be done in other ways more efficiently and at still less expense. If the defense be the employment of persons, even they might be employed in performing the same duties privately at less cost.

4. We will begin with the expenditure for supervising banking institutions. This superintendence must be condemned for many reasons. First, it is of little worth. Experience has shown that the work, even though conducted by capable and honest officials, cannot be thorough. The most that can be said of bank examinations is that, if any fraud or error has been committed, it may

be discovered; also, that the possibility of discovery may have a deterring effect.

5. Experience has shown that the best examinations are those made by officials selected by their employers and having all the time they need for doing their work. This, in truth, is the only kind of examination worthy of the name.

6. Again, if such an examination were ever so efficient, it is not justified because it is only for a class, and a small class, of the community. As the holders of bank-note circulation are amply protected, and no examinations are needed to protect them, the only persons served by examinations are shareholders and depositors—two sharply defined classes. Are these two classes so important and sacred as to entitle them to greater protection than others? Is there anything about money and credit that calls for their peculiar protection? Is there, in truth, any better reason for examining banks for the benefit of these two classes than for examining the affairs of a merchant or a railroad company or a joint stock company of any kind for the benefit of creditors? Draw a line (and it is drawn in some States) between incorporated banks and private bankers; still, such examinations are quite as indefensible. It is class work, intended for a class, and a very small one, compared with the entire number of people in a State.

7. Again, if undertaken at all, why should not the institutions and persons examined pay? The State regards an examination as a good thing, a safeguard; if it is, why should not a bank be profoundly thankful for having the State perform this service, which, possibly, it does not know enough to have performed by a private person, and gladly pay the bill? National banks, indeed, are obliged to pay for examinations conducted by examiners; so are some State banks. Why should not all be required to pay?

8. But there is a serious objection to this requirement. A bank has no intention of violating the law, makes frequent examinations of its own, and perhaps makes them by more competent persons. And if a bank ought not to pay the State for performing a service much inferior to that performed by its own appointee, surely it ought not to be taxed for the public examination of similar institutions. It will be admitted that banks may go astray; so may individuals. If a bank ought to be watched, ought not every banker? Is the danger greater when a bank is a corporation? Certainly not; it is lessened. Evidently the State should treat a corporation as it treats individuals—give both the same liberty to act, and punish both in the same manner when they transgress the law.

9. Again, is there not equal danger that the people will wrong the banks, and each other, and are they not doing this every day? Why, then, should not the State appoint supervisors to watch the business of individuals, to find out whether they are acting wisely and are worthy of credit? Do not individuals often manage their affairs badly, become bankrupt and carry down banks in their ruin? Why, then, should not the State supervise the business of merchants or manufacturers and protect them, as well as those who do business with them, from imposing on and ruining the banks?

10. Again, it is said that the banks ought to be supervised because they are the children of the State. If so, ought not all corporations, all limited partnerships, in truth, all associations? Do they not all act under either the statute or common law? In truth, can any logical or rational line be drawn between banking and other corporations with respect to supervision? Do not all of them deal more or less in money, give credits, contract debts, blunder, lose money, often commit frauds and fail? And why should any line be drawn between persons who are associated in business and those who are acting alone? If protection from loss of wealth by the

supervision of human conduct is one of the great functions of government, ought not all persons to be included, whether acting in a corporate or sole capacity? Five persons agree to unite in conducting a banking business, and they proceed forthwith, by virtue of a special charter obtained for the purpose, or by the general law authorizing the formation of corporations. Five other persons engage in the same or some other business as a partnership. The rights and liabilities to each other and to the public are determined partly by statutes and partly by the common law of the State in which they conduct their business. The entire number, the ten, are acting by law, their rights and duties are determined by it. Why, then, should not all be treated alike; supervision for all or none?

11. Is not the superintending of insurance companies quite as indefensible? It is true that more persons are interested in their management than in banks; policyholders far outnumber depositors and bank shareholders. Nevertheless, it is questionable whether insurance companies should be subjected to State supervision. Let the people determine for themselves in what companies they wish to insure.

12. The same objection may be made to supervising them as has been made to bank supervision—inefficiency. Most of the companies are well managed, and would be, regardless of State oversight. On the other hand, a company that sets out to defraud the people generally succeeds, the State in its attempt at prevention simply showing its inefficiency.

13. As the State, while exercising supervision over a company, strengthens the belief of all who do business with it that it is worthy of trust, ought not the State to make good losses which are clearly the result of ignorance, neglect or dishonesty of its own supervising officer? The State has not yet done this, but it seems to be a fitting corollary from its work of supervision. On the

other hand, if it is not to pay for any neglect of duty, why should the people be taxed for supporting inefficiency and worthlessness? For what, then, do they often pay? The luxury of having the State deceive them.

14. It is true most of the companies are well managed, because it is their obvious interest to be so in order to secure and maintain the public confidence; and they would be as well managed were State supervision unknown.

15. What shall take the place of such supervisory work? The remedy has long been known, only it is too infrequently applied. Ample laws exist for punishing frauds of every kind. When a company is mismanaged the officers should be made to feel the terrors of the law; and if this were done, many of the wrongs from which people suffer would come to a speedy end. This is the most effective remedy. We all know how difficult it often is to convict an offender of this kind; how often he escapes, or is let off with an inadequate punishment. So long as he is permitted to escape so easily, the wicked will continue in their evil ways, regardless of any supervision that may be exercised by the State. Finally, it may be added that the State should educate the people, as it is now doing, in a general way, for all the duties of life, both public and private; and then it should require them to take care of themselves and discontinue the system of baby-citizenship. To continue the work of supervision over them is to counteract, and most effectually, the work which the State now undertakes to do for them in the way of education. The State virtually says to them: "Here are schools prepared for you, enter them, and learn how to live and act. Indeed, you must do this, but if you disobey the law and do not, then we will look after you and keep you from harm. We will supervise the banks with which you do business, so that you shall not lose anything that way; we will also look after the insurance and railway companies, the mines and fac-

tories, and even your food." Thus the State puts a high premium on ignorance; its course is a paradox. Is it not quite time to remove a paradox so destructive to good citizenship?

16. Next may be considered the subject of railroad supervision. The practice in the different States greatly varies. Some of them have elaborate railroad commissions, maintained at large expense, which undertake the work of supervision. Not only do they examine accounts, but even the physical structures of railways. They are supposed to possess the fullest knowledge concerning the business of a railway company, though in most cases they have been professional politicians. Much has been said concerning the worth of such examinations. All, of course, depends on the ability and honesty of the persons selected to do the work. Years ago, when many of the companies were in more trying positions than they are now, it was cheaper to keep commissioners passive by private arguments than to build new bridges or to lay more ties. But the actual good accomplished by many railroad commissioners has been the smallest imaginable.

17. The industrial bureaus, as conducted in many States, are in the same questionable category. One of the vices clinging to them is, their creation and maintenance for a class. Notwithstanding the great size and unquestioned worth of the industrial class, there is nothing peculiar about their work calling for such especial consideration. If these bureaus existed for the collection of statistics relating to, or affecting all classes, and their work was still farther broadened to cover all inquiries or investigations desired by legislators to aid them in legislating, then indeed would these bureaus stand on a much stronger foundation.

18. It will not be questioned that in many, if not all cases, the object of the working class in having labor bureaus established was, through them, to find out the profits of employers. Their reason for desiring this

knowledge is too evident to require statement. Yet the failure of these bureaus to collect such information has been complete. Indeed, such information from the very nature of things cannot be collected, although this is not yet fully understood by the working class. Even if employers were inclined to make correct returns, they would be distrusted.

19. In many cases the control of these bureaus has been given to workingmen, believing that they would be less inclined to oppose the existing order of things. In other words, for the same reason that ignorant men, unacquainted with the true workings of government, have been permitted to vote, because they would be less inclined to complain over their condition. For such the suffrage is a safety valve.

20. It may be questioned whether any government can long endure which bestows the franchise on an unfit class, through fear that if withheld its members may become dangerous and perhaps rebel. The sooner the better the test is made to find out whether the State can stand the lopping off of powers from such a class.

21. The next expenditure to be considered is that for a State library. There was a time when law reports were not so plentiful as they are now, and when they were needed by judges for the proper administration of justice. Under this necessity have grown up, in many States, libraries of a general character. From the very nature of things, the books can only be used by a few people; they cannot be sent around the State, except at much cost and danger of loss. This cannot be done with safety unless adequate security is left to insure their safe return. In short, it may be said that such a library can be used only by going to the library where the books are kept. While in theory a State library is free to every person, in fact it is not free at all, because of the cost of getting to it, the loss of time, etc., precludes the use of such an institution. Clearly, then, such a department

should be limited to the books required by the courts or by the various officers of the government, legislators and others for the purposes of legislation and administration, or relating to the history of the State. To preserve the history of the State is regarded by every State within its province, and to this end a State museum or library may be created and continually enlarged. Public libraries may indeed be justified by towns and cities, where those who pay the expense can profit by them, but not by the State.

22. Within a few years many of the States have undertaken the inspection of mines and factories. This service rests on a different ground from the inspection of banks and insurance companies; it is for the preservation of life and not for the security of property. Yet mine inspection in many cases has been unsatisfactory. It is true there has been a dimunition in the loss of life and injuries, but is not this due to greater intelligence? Science has taught much concerning the methods of mining, and are not the fewer accidents due to this cause rather than to the work of inspectors.

23. We have now come in sight of two principles that may serve as practical guides to determine the appropriate limit of State supervision. First, it should not attempt the supervision of property.[5] Second, even supervision of matters affecting the life and health of the people should not be undertaken without good reason for believing that the State can act more efficiently than the people themselves.

24. Inspection laws, therefore, relating to the safety and healthfulness of mines, railroads, factories, food and the like, the prevention of diseases, the preservation of water supplies from pollution, are within the proper province of a State when it can execute them efficiently. The cities, for example, have regulations for the storage of explosives. The State makes regulations concerning the management of trains to prevent accidents, and, when

these are not respected, doubtless it would have a right to attend to their proper execution.

25. To interfere with one's action respecting contracts for property is quite another thing. Not only have the people a right to make them, but the State ought not to interfere or exercise any supervision over persons in making or executing them. Between a bank and a depositor a contract exists, as much so as between the insurer and insured. A State should not hinder him in exercising this right, nor be responsible for his failure to exercise proper discretion or judgment. So, too, in transporting freight and passengers, this is done by contract, and the freedom of individuals should not be abridged. The State unquestionably has a right to interfere, inspect and supervise so far as this may be needful to secure individuals from physical injury. But so long as companies are acting properly and not abusing their privileges, or so long as a State cannot interfere effectively, it should let them alone. If this limit of State supervision is sound, States are justified in inspecting the physical structure of railroads and providing for the safety of passengers, their convenience and comfort, whenever they are neglected. In recent times, however, State supervision has been less needful, because transportation companies, in their rivalry to get business, are doing so much for the care and comfort of their passengers that there is little occasion for State interference.

26. Lastly, a word may be said concerning the enactment and administration of laws for the maintenance of public police. This is a general term intended to include many of the new functions undertaken by a State, for example, the regulation of grain elevators. Laws relating to them were passed a few years ago by the Legislatures of Illinois and New York; their legality was questioned, but sustained as falling within the general police powers of the State. It may be said in condemnation of such legislation that it is not well defined, and that, until it is, ought not to be undertaken.[6]

27. All such laws require the expenditure of money to execute them. Every law has a money side, not always clearly seen, yet existing. All public police regulations are of this character. Besides the general grounds on which such legislation should be watched, it tends to debase the people, to draw the State down to a lower level. These are quite sufficient grounds for restricting such legislation within narrower limits.

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[1]The contrary view has been expressed by G. K. Holmes in a very interesting article on State Control of Corporations and Industry in Massachusetts, 5 Polit. Science, Q. 411. He says: "The experience of Massachusetts in this matter points out a field for State action which promises to render further steps toward social industrialism unnecessary. This State is regulating corporations and industry on a large scale, and with much success. The results indicate that for the most effective supervision of the evils arising from the improper management of corporations and monopolies, with the least encroachment upon the liberty of the individual, the best means is to be found in the extension and perfection of the system here employed. I refer to various boards of commissioners which the State has created, with large discretionary powers, for the purpose of securing from corporations compliance with legal requirements. There are railroad commissioners, insurance commissioners, savings bank commissioners, gas and electric light commissioners, an inspector of gas meters and illuminating gas, a commissioner of foreign mortgage corporations, a board of arbitration and conciliation, factory and public building inspectors, and a commissioner of corporations.

[2]Concerning the rapid increase of State expenditure, see the valuable reports of J. H. Roberts from 1894 to 1899, Controller of New York. Also Franklin Smith's article on Excessive Taxation in Appleton's Popular Science Monthly, April, 1900, p. 645. Also the excellent and needful message of Gov. Odell, of New York, January, 1901.

[3]The right of the State to regulate the charges of transportation companies should they attempt to get more than their charters, or the laws under which they exist, prescribe, is not questioned. On that subject see F. C. Clark's article, State Railroad Commissions, and How They May Be Made Effective, 6 Pub. of Am. Economic Assn. 189.

The Mass. reports are a marked exception.

[4]The constitutional right to extend supervision over property is not questioned, but only the expediency of exercising the right.

[5]Compulsory pilotage laws have often caused strong adverse criticism. For a consideration of the subject see House report, No. 848, 54 Cong., 1 Sess.

CHAPTER XVI.

APPROPRIATIONS.

1. National appropriations are permanent or annual.
2. Permanent appropriations should be carefully limited.
3. Formation of the annual appropriation bills.
4. General deficiency bill explained.
5. Sundry civil bill explained.
6. What committees have charge of appropriation bills?
7. Evils of dividing them among so many committees.
8. Mode of preparing them.
9. Difficulties in preparing them.
10. Party tricks in preparing them.
11. Scramble of members to secure appropriations.
12. Action of the Senate committee on appropriations.
13. Adjustment of differences between the two Houses.
14. The people ought to study these bills.
15. Once if an appropriation was made it continued.
16. Now, if not expended in two years it cannot be.
17. Re-appropriations.
18. Exceptions.
19. Negligence in making appropriations.
20. "Riders" to appropriation bills.
21. Indefinite appropriations for new enterprises.
22. Preparation of bills by the Executive Department.
23. Preliminary action of the state controllers and auditors.
24. Mode of procedure by state appropriation committees.
25. Special appropriations.
26. Action of state senates on such bills.
27. Duration of state appropriations.
28. The authority of state legislatures to adjust and pay claims.
29. The authority of the governor to veto items.

1. Having described the different objects of expenditure, we shall now explain how appropriations are made, beginning with the national ones. Every expenditure made by a department is authorized by law. This may be done in one of the two ways. One way is by a permanent,

the other by an annual appropriation by Congress. Permanent appropriations are for paying the interest on the public debt, collecting the revenue from customs, paying salaries of officers, providing for the sinking fund, refunding taxes illegally collected, redeeming stamps, refunding duties on goods destroyed, supporting the marine hospital, maintaining justice, in short for one hundred and eighty-five purposes.

2. Those who are most familiar with the subject maintain that permanent appropriations should be carefully limited, for the interest of Congress in them is thereby withdrawn, and abuses may arise. By making appropriations annually they are subjected to scrutiny, and the danger of wastefulness or fraud is lessened.

3. When the government began, in 1879, all appropriations were made in a bill consisting of the following items: "A sum not exceeding $216,000 for defraying the expenses of the civil list under the late and present government; a sum not exceeding $137,000 for paying the expenses of the Department of War; a sum not exceeding $190,000 for discharging warrants issued by the late Board of Treasury and remaining unsatisfied; and a sum not exceeding $96,000 for paying pensions of individuals." In 1792 the general appropriation bill was far more elaborate than any former one. The next year a new feature was added: the President was authorized to borrow money in anticipation of the revenue. Appropriations were made for special purposes at every session of Congress; and generally, near the close, a bill was passed containing all the appropriations not included in previous enactments. Two years later appropriations for military and Indian purposes were put in a separate bill, and were kept there for many years. It is true, that in the general bill, as well as in the special one, and also in the miseellaneous bill, might be found appropriations for the army and for the Indians; nevertheless, the custom had been begun of framing what may be regarded as the

second regular appropriation bill. For the next three years the appropriations for the army, navy and Indians were included in a single annual bill. In 1798 the Navy Department was created, though for that year the appropriations for the navy were mingled with others of a miscellaneous nature. The next year, 1799, the third regular annual appropriation bill was passed, making appropriations for the Navy Department. These were the only regular appropriation bills until 1828, when a fourth bill, appropriating money for the construction of fortifications, was added to the number. In 1804 was passed the bill for deficiencies, and in 1844 the first separate post-office appropriation bill. In 1847 the appropriations were made in nine separate bills, army, civil and diplomatic, deficiencies, Indians, military academy, navy, pensions, and post-office. Nine years afterward the consular and diplomatic appropriations were embodied in a separate bill, and the following year the legislative, executive and judicial appropriation bill appeared. In 1867 the sundry civil bill was formed, and in 1880 the agricultural and District of Columbia bills were added to the list.

4. The titles to these bills clearly indicate the purposes for which appropriations by them are made, except by the general deficiency and sundry civil bills. In what way can a deficiency arise since no official can make a contract requiring the expenditure of money unless an appropriation is made for that purpose? In truth, a deficiency may arise in two ways. One way is by enacting a law calling for the performing of a service, in the army or navy for example, without reference to an appropriation, and clearly authorizing an obligation. The other way may be best explained by an illustration. Congress in 1899 granted an appropriation of $300,000 for the rural mail delivery service. The Postoffice Department made contracts for this service, which, if executed throughout the year, would have required an expenditure of $450,000. Before the end of the year it was confronted with the alternative

either of suspending a part of the service or of asking for a larger appropriation. Rather than cut down the service, Congress appropriated enough more to continue the service everywhere, and the additional amount was put into a deficiency bill passed a session after the regular postoffice appropriation bill containing the original $300,000 appropriation.[1]

5. In the sundry civil bill is included all miscellaneous appropriations, especially for the payment of claims against the government. Congress seeks to limit the regular appropriation bills strictly to legitimate purposes. Not the least object in this is to minimize the importunings of the sleepless claimant. He is a kind of omnipresent individual in Washington, and especially when an appropriation bill is under consideration.[2] It has been found that one of the most effective ways of getting relief from him is to narrow his demands as far as possible to a single bill, and this is the sundry civil. It is, however, undergoing a strange transformation. Items which ought to appear in other bills, army and navy especially, are left out of those and included in the sundry civil bill to cover up somewhat the expenditures of those departments. Through such additions that properly belong to other bills the sundry civil bill of late years has risen to stupendous proportions.[3]

6. Formerly the work of preparing appropriation bills was done by the committee of ways and means. This was the correct method, for revenues and appropriations are closely related. In 1865 an appropriation committee was created to which was referred all appropriation measures. Twenty years after, in 1885, the work of this committee was divided, the appropriation committee retaining control of six bills—general deficiencies, the District of Columbia, fortifications, legislative, executive and judicial expenditures, and pensions. The other nine bills are the agricultural, which is prepared and reported by the committee on agriculture; the army, and military academy

bills, by the committee on military affairs; the diplomatic and consular, by the committee of foreign affairs; the Indian bill, by the committee on Indian affairs; the naval, by the naval committee; the postoffice, by the postoffice committee; the river and harbor bill, by the committee on rivers and harbors.

7. By thus dividing the work it was believed that the bills would be prepared and reported at an earlier day.[4] Unhappily, this has not been realized; their appearance is still longer delayed. Besides, this change has had the effect of increasing expenditure. The different committees have not the same regard for economy as the appropriation committee had when the members were responsible for the entire appropriations.

8. The mode of preparing appropriation bills may next be described. The Secretary of each Department requires that the heads of subordinate departments shall

[4] "I do not believe now that the most ardent advocate of that [change] then would contend for one moment that the beneficial results claimed and anticipated have been in any degree realized. Committees, each with jurisdiction over but one bill, have frequently been the last to bring their measures into the House for consideration. Great confusion has been experienced in the closing hours of Congress in determining the condition and status of the various appropriation bills, and the per capita of appropriations—the crucial test of economy in the premises—has increased, exclusive of appropriations for pensions."—Mr. Cannon, Chairman of the Com. on App. of the 54 Congress.

"There are too many appropriation bills. Instead of fourteen there ought not to be more than ten. The agricultural bill ought to be made, as it was prior to 1881, a part of the legislative, executive and judicial appropriation bill, which provides for the official staff and expenses of the several Executive departments, except the Agricultural Department. The army, fortification, military academy and naval appropriation bills ought to be consolidated into one. By such consolidation, much time now wasted in irrelevant general debate and formal proceedings would be saved to the House, and greater latitude and opportunity could be afforded for the full consideration of the real merits of appropriations carried by the several bills." Ibid. See also a very elaborate debate on the subject of distributing the bills in the Senate among other committees, 54 Cong. 1 Sess. 28 Cong. Rec. 42, 132, 1276, 1324, 1386, 1453, 6138.

make careful estimates of their wants for the next fiscal year. When these are completed, they are subject to revision by the Secretary himself. The estimates are then sent to the Secretary of the Treasury. The estimates of the expenditures for his own department are prepared in the same manner. All of them are then published by his direction in a Book of Estimates for the use of members of Congress. Let us suppose that the committee is ready to prepare the pension appropriation bill. The Secretary of the Interior is notified, and he, or some assistant in his office, appears before the committee or sub-committee on appropriations and explains the nature of the estimates. In a few cases the preparatory work is very easy; the pension appropriation, though the largest of all, does not require such consideration, as existing laws furnish the requisite data for determining by far the largest portion of the whole amount that must be appropriated. The same remark may be made concerning appropriations for the military academy, as most of them are fixed—salaries of the professors and the like.

9. Most of the bills, however, are not prepared so easily. There is often a difference of opinion between the committee on appropriations and the Executive Department concerning the amount to be appropriated. If the Secretary of the Treasury is a believer in liberal expenditures, and the chairman and the majority of the committee on appropriations disagree with him, a serious conflict may arise. This has happened when the majority of either branch of Congress belonged to a different party from the chiefs of the Executive departments. Each party has battled for advantages by diminishing or increasing appropriations.

10. A well-worn trick of parties, practiced before election, is to diminish appropriations and talk about economy; and afterward to make a large deficiency appropriation to pay for the expenditures that have been incurred.

11. Besides party considerations, are the struggles to secure or exclude items of members while bills are in process of formation. An illustration may be added to show how adroitly members accomplish their ends. Several years ago a navy yard was established on the North Atlantic Coast. Like others that were not needed, once existing it must be maintained. The member of Congress in whose district the yard in particular was located, comprehended the difficulty in getting an appropriation for such a useless thing. He just as clearly saw that if he could succeed it was a measure of his power. So he put all his wits in operation to accomplish this one feat during the session. What, then, was his mode of proceeding? He endeavored to make friends with everybody by voting for their measures, quite regardless of their merit, thus frittering away his influence as an independent legislator, expecting that when his pet measure was ready for consideration it would receive the support of all whom he had befriended during the session! Nor did he go amiss in his calculations. At each session he succeeded in getting his appropriation, notwithstanding its utter uselessness. The more difficult the undertaking, the greater was his triumph, and the stronger the reason for sending him back. The influences that converge on the appropriation bills to get money from the public are most varied in their character. All kinds of combinations are made to secure favorable action. The members can rarely be charged as corrupt who do these things, for they usually gain no personal advantages by making them except the good will of their constituents. And in the final analysis they are the actors who must be greatly blamed for many of the things done by their representatives. Knowing what their constituents, or many of them expect in the way of results, they try to accomplish these regardless of the general good of the entire country. Yet a legislator sometimes makes a signal failure who never looks beyond the horizon of

his own district. Such an illustration was given not long since by Mr. Hepburn of Iowa in a speech before the House. "There was a gentleman here," he said, "from the State of Oregon—a gentleman beloved by all his colleagues—who devoted himself to securing appropriations for his State. They were colossal in amount, and yet they were not sufficient to meet the constantly growing appetite of his people—contractors and interested persons—and when the time came that he had reached the limit, they struck him down because he could not continue these extraordinary appropriations."[5]

12. When the bills pass the House they go to the Senate and are referred to the appropriation committee for consideration. The bills, when reported to the Senate, are often increased; sometimes large amounts are added. These additions have a varied origin. Some of them are made to please members of the House, who have failed to secure a place for them in the original bill or by amendment; others to escape the charge of extravagance. As Senators are further removed from the people, and perhaps have less fear of public criticism, it is an old practice of the House to weigh down the Senate with a part of the burden of appropriations.

13. Another important act in the perfecting of appropriation bills is to adjust differences between the two Houses. Committees of conference, or managers, usually consisting of six members, three from each House, are appointed for this purpose. They are also members of the committee that prepared the bill in controversy and had charge of same. An adjustment means a compromise, each house receding from some of its positions. Sometimes, however, a committee, on the part of the House or Senate, insists on retaining or rejecting an appropriation, and the members report the cause of disagreement and ask for instructions. These are furnished in the form of a vote on some question or proposition

offered by the committee, and are followed. Whenever the final report of the committee is made, it is adopted. In the way of illustrating which body must recede in the event of a disagreement may be mentioned the naval appropriation bill for 1901, to which the Senate had added $100,000 for hydrographic surveys. To this amendment the House was strongly opposed. The members of the conference could not agree. Mr. Foss, chief manager on the part of the House, feared that if the House insisted on keeping out this appropriation, the Senate would not yield and the bill would be lost. He therefore asked "if the House conferees should insist on the House position to the defeat of the bill." Mr. Cannon, chairman of the general committee on appropriations, and possessing a knowledge on these matters far surpassing that of any other member, replied: "All legislation is the operation of a compromise between the two bodies. You have to give and take, and the invariable rule is that that body which proposes new legislation, which proposes an appropriation that is not called for by existing law, always recedes when the other body says no. That is the invariable parliamentary proceeding, and no other way is possible to bring about legislation upon these great money bills." As the Senate therefore had proposed this amendment, "that body must recede rather than have the bill lost."[6]

14. Good governing finally centres in the expenditure of money, and most of the national expenditures are authorized by the fifteen appropriation measures. If money is filched from the government, it must finally rise to the surface in the form of an appropriation to cover the expenditure. Thus, by carefully studying these bills, a good insight can be gained into nearly all of the workings of the government.

15. Until 1872 an appropriation, once authorized, was continuous and could be drawn at any time. The unexpended balance of one year could be drawn during

another. These accumulated in all the bureaus and departments, and in course of years formed a large and constant fund, which was used for many purposes without the approvel of Congress. Of course, such action was illegal. In a single bureau it was found, in 1870, that the unexpended balances, the accumulation of a quarter of a century, amounted to $36,000,000.

16. A law was then enacted whereby all balances in the annual bills for the services of a fiscal year remaining unexpected at its close could be applied only to the payment of expenses incurred during the year, or to the fulfillment of contracts properly made within it. Balances not required for the purposes specified went to the surplus fund, and at the end of two years from the time of authorizing them, were to be covered into the Treasury. By the operation of this law two years afterward over $174,000,000 of accumulated balances were covered into the Treasury, and the temptation to waste this great fund was removed. By another law, passed in 1874, other abuses growing out of unexpended balances were wholly repressed.

17. A legislative device to cover up the actual amount of appropriations is to reappropriate unexpended balances without specifying the amount; and indefinite reappropriations by Congress of balances, which, under the law of 1870 and 1874, cannot be used without renewed authority, have appeared in the annual bills. The proper method is to appropriate specifically for the expenditures Congress is willing to authorize, so that the law itself shall show as far as possible both the object and the amount of appropriations.

18. The most noteworthy exceptions to this law are appropriations for fortifications, public buildings and rivers and harbors. It would be difficult to give any better reasons for making these, rather than many other appropriations, perpetual.

19. The slight interest sometimes taken by Congress in making appropriations may be illustrated by the following incident. By the Act of July 19, 1848, three months' extra pay was granted to officers and soldiers who had been engaged in the war with Mexico. The object of this act was to pay each soldier on his discharge from the army for the time spent in returning home and securing employment. In 1874 $50,000 of extra pay was still due, and a bill was introduced to appropriate sufficient money to complete the payment. An amendment was added to the original bill, enlarging the province of the first Act of 1848 to the granting of three months' extra pay to all officers and soldiers of the regular army, and all petty officers, seamen and marines of the navy and revenue marine service, who were at any time occupied in the prosecution of the Mexicn War. No one had asked for this gratuity, and an excellent authority says that the appropriation was probably passed without much notice of its real character. The amount appropriated by the Act thus enlarged was three and a half millions, while the sum actually due was only $50,000.

20. Another feature remains to be noticed relating to appropriation measures. Every now and then to some legislation is attached a "rider." The temptation has become strong to attach other legislation to appropriation measures whenever possible to secure its favorable consideration, as such bills are the most important and have the right of way in Congress. This was first attempted in England during the reign of Queen Anne and excited strong opposition. It was declared unconstitutional. In the National Congress such legislation was first attempted to reduce some of the appropriations. Having obtained a foothold in appropriation bills, the reason which justified its introduction was soon forgotten, and foreign legislation has been occasionally smuggled into them and passed. This practice is reprehensible and should be cut off.

21. Another vice is growing in making appropriations. In many cases, if a building, for example, is desired, the father of the scheme, instead of appearing before the proper committee with a bill limiting the amount of the expenditure and explaining the need of it, succeeds in smuggling a small indefinite appropriation for the desired purpose into an appropriation bill, assured that if he can once plant the thing it will be easy to nourish it with subsequent appropriations.[7]

22. Appropriation bills ought to be reported as early as possible at every session, and more time be devoted to airing and discussing them. To the accomplishing of this end, much would be gained if they were prepared by the Executive departments and presented to the committees charged with the duty of reporting them. Instead of preparing the Book of Estimates, why not prepare the bills and present these in printed form with such explanations as may be thought desirable? This would not be more difficult than to prepare the Book of Estimates; and the different committees that now prepare them, relieved of this work, would be able to report them earlier during the session, leaving more time for their consideration.

23. Passing from the National appropriation bills, those of the States may be more briefly considered. As their appropriations are smaller, in most States only one general appropriation bill is prepared and passed. Before the meeting of the legislature the State controller, or auditor, or other person who keeps the public accounts of a State makes a report describing the revenues of the preceding year, and also the expenditures and various objects for which they were made. The duties of this accounting officer are simple, the auditing or examining of accounts and classifying and printing them for the information of the legislature and the people.[8]

24. On the assembling of the legislature a committee on appropriations is appointed by the speaker of the lower house. In some legislatures, only one committee

exists for appropriating money and for devising ways to raise it, usually called the committee of ways and means. This is the true method, for wherever it exists the members in making appropriations will be restrained by present or future revenue conditions. Divide the duty between two committees, and the tendency of the appropriation committee will be to spend more because the responsibility for raising the money rests on another committee. The bill prepared for the consideration of the house ought to be perfected at an early date, so that its contents can be printed and widely examined. Usually it is one of the last measures reported. The reason for the delay is that throughout the session persons appear urging appropriations. Of course, the committee is unwilling to offend anybody, and so hearings are usually given to all. Sometimes the committee goes to various places to examine enterprises for which appropriations are asked. The consequence is that the report is usually delayed until near the close of the session. By that time it is known how much the State will have to expend; this is found out by the officers who collect the taxes, and with this information to guide the committee, it is ready to proceed with its work.

25. There is, however, nothing to bar other committees from considering applications for special appropriations. A committee on canals, for example, in a State where they exist, as in New York, may take charge of appropriations relating to their repairs, etc. A railway committee may make recommendations and seek to get appropriations for railway purposes; other committees may recommend and succeed in passing special appropriations. In truth there is no limit to appropriation bills that may be passed. And if the regulations concerning them are fewer than those which relate to national appropriations they are less needed, because the sums appropriated are smaller, and it is easier to watch them and prevent abuses when members are inclined to go too far.

26. The senate in State legislatures, like the national senate, exercises full authority over appropriation measures in reducing or enlarging or otherwise changing them. When a bill of this character passes the house, it is sent to the senate and referred to a similar committee, which considers the measure and makes a report on which action is taken.

27. By the constitutions of most States an annual detailed statement must be made by the treasurer, controller or auditor of the receipts and expenditures; and no money can be legally paid out without legislative authority. And in some of the States no appropriation can be made for more than two years.

28. In appropriating money to pay claims the constitutions of Illinois and Texas provide that this cannot be done in a private law. By the constitutions of New York and Michigan the legislature is forbidden to audit or to allow a private claim or account, while the legislatures of several other States are forbidden to authorize the payment of a claim founded on an agreement made without authority of law. The legislature of Maryland is restricted by a peculiar constitutional provision in acting on private claims. No money can be appropriated to pay a claim exceeding three hundred dollars, unless it has been approved before the controller and is reported by him. In New York the legislature or other authority cannot allow a claim that would be barred by the statute of limitations if it were against an individual.[9]

29. When a bill is finally passed and goes to the governor for his approval, in many States he can exercise a wise discretion in disallowing items. He has thirty days or longer to examine them. If a governor is high-minded in doing his duty, he often disallows many items, thus incurring, it may be, the enmity of those who suffer through his action. But there is no question concerning the wisdom of endowing him with this authority, and no amendment of the National Constitution is more needed

than one authorizing the President to veto all questionable and wrongful appropriations. If he was authorized to do this, many of the worst items now smuggled into appropriation bills would meet their doom by the President's hand.

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[1]For further explanation of a deficiency bill, see 33 Cong. Record, 960, 896, 899.

[2]See debates, 33 Cong. Record, 6811.

[3]See speech of G. B. McClellan, 34 Cong. Record, 2707.

[4]34 Cong. Record, 1029.

[5]33 Cong. Record, p. 6696. The two houses, during the first session of the 56th Congress were for a long time unable to agree on the subject of contracting for armor plate. The conference committee often met and the managers, on the part of each house, reported several times to their respective bodies, and were instructed. See 33 Cong. Record, p. 6875. See further remarks by Mr. Cannon on the methods of conference committees, 33 Cong. Record, p. 7059.

[7]How great oaks from small acorns grow, see remarks of Mr. Cannon, 34 Cong. Record, 1608, and those of Senator Hale, 34 Cong. Record, 2658.

[8]The State controllers and auditors of many States might improve their reports by classifying their expenditures and revenues, and by comparing them with the expenditures of previous years. While there may not be the least disposition on the part of accounting officers to hide information from the public concerning the receipt and disposition of public money, in truth it is largely hidden, through lack of classification and comparison of items except to those who have ample time for exploring their labyrinthine reports. See some excellent remarks by Prof. Seligman in Am. Statistical Assn. 349-354.

[9]Private claims against the State, Ernst Freund, 8 Polit. Science 2,265.

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CHAPTER XVII.

REVENUE FROM TAXATION—GENERAL PRINCIPLES.

1. Taxation is the principal source of revenue.
2. The term defined.
3. A tax is compulsory.
4. A tax is a contribution.
5. What the term wealth includes.
6. A tax is imposed on a person.
7. A tax is levied for the benefit of the public powers.
8. The purpose of taxation.
9. Peculiar services rendered by the state. Care of the Indians.
10. Postal services.
11. Questionable services.
12. Local services.
13. Classification of taxes.
14. Direct and indirect taxes.
15. Opinion of the United States Supreme Court.
16. Economic distinction between a direct and indirect tax.
17. Difficulty in distinguishing between them.
18. What form of taxation will promote the greatest economy in expenditure.
19. Empirical classification.
20. Personal taxes.
21. Taxes on occupations.
22. Taxes on income.
23. Taxes on land.
24. Taxes on goods and money.
25. Taxes on inheritances.
26. All ought to pay a tax.
27. Including all the members of a family.
28. Why all should pay more than they now do.
29. What taxes all ought to pay.
30. Taxes for the preservation of personal liberty and security.
31. For civil justice.
32. For civil justice in an ideal state.
33. Same subject.

34. For food inspection, etc.
35. Why the owners of private property should pay more.
36. Payment by those who are able for those who are not.
37. This supplementary tax should be collected on just principles.
38. It is not because those having the most wealth favor a wasteful government.
39. Should the state regard the incidence of a tax?
40. Incidence of an octroi tax.
41. The incidence of indirect taxes is often unequal.
42. Should taxation be based on this idea?
43. To what extent can an indirect tax be thrown off?
44. It cannot be by persons not in business.
45. Nor by persons in active competition.
46. Nor with any uniformity.
47. Modes of attempting to throw off the tax.
48. Indirect taxation should be levied on non-necessities as far as possible.

1. Having described the National and State expenditures, the way is prepared for considering the revenue collected to pay them; the principal source is taxation.[a]

2. In defining a tax we shall use Bastable's definitions "A compulsory contribution of the wealth of a person for the services of the public powers."

3. Each term of the definition may be briefly considered. First, a tax is compulsory; the payer is legally required to pay. The amount, the mode, and the time of levying all are determined by the taxing power. A person may contribute money voluntarily to a State, as is done in some of the cantons of Switzerland, but such support is not taxation. Gifts to a State cannot in any sense be regarded as taxes.

4. Again, a tax is a contribution, by which is meant a sacrifice, paid by the contributor. Some persons may profit by the operation of a tax; yet every tax paid is a deduction from the contributor's wealth. He may indeed indirectly receive a larger return from the payment of the tax than the amount contributed, yet the tax is a contribution.

5. Again, the term wealth must be understood as including services as well as money or other commodities. Sometimes a road tax is levied payable in money or in labor. Often a military tax is of the same character, but is none the less a tax, whether discharged by performing labor or paying money.

6. Taxation is imposed on persons. This necessarily follows from the circumstance that the payment of taxes is a duty, for persons only can be liable to duties.

7. Again, taxation is levied for the service or benefit of the public authority. Bastable remarks that the public economy requires the supplying of its wants, and taxation is the mode of meeting whatever proportion of its wants remains unsatisfied by other parts of the public revenue. The amount received may be misapplied; the service rendered may be grossly inadequate for the contribution made to the State, but whatever it does, whether good or bad, much or little, is a service. "The produce of taxation," he says, "has unfortunately been far too often misapplied and resulted in injury rather than gain, but the tax-imposing body must be regarded as the final arbiter as to the justice of its wants. That some requirements are evil makes them none the less requirements, in the case either of individuals or states."

8. Much has been said concerning the purpose of taxation. Is it to secure protection by the State as many believe? Clearly, it is for the services rendered by the State. These have been disclosed in our analysis of expenditures. What are they? One of the most important is protection to persons and property. Another is for the administration of justice.

9. Some of the services rendered by the National Government are peculiar, especially those to the Indians, founded on treaty relations, and resting solely on contract. The Government, therefore, in serving the Indians, is simply fulfilling its contracts, either expressly made or implied during its long intercourse with them.

10. Other expenditures are for postal services and the like, which we have considered as justifiable, but which cannot be regarded as protective, like those incurred for defense against foreign foes and insurrection.

11. Other expenditures are for services of a questionable character, some of which can hardly be justified on any ground. They are not for the protection of life, health or property; nor do they strengthen the general security or promote the general welfare.

12. Other expenditures are for mere local services; they are not protective in any sense, but are necessary to the general comfort and well-being of the citizens, as roads and bridges.

13. Thus much concerning the purposes for which taxes are laid. Another question, and one far more difficult to answer, relates to their classification. They have been classified in various ways, but no classification has ever received general assent.

14. The classification into direct and indirect, whether economically correct or not, must be made, because it exists in the Federal Constitution.[1a] What is the constitutional and economic meaning of these terms?

15. In a recent judicial exposition the meaning of a direct tax has been defined by the Supreme Court of the United States. In 1894 a law was passed levying a tax on all persons in the United States having an annual income exceeding $4,000. The tax was attacked as a direct one, and if it was, could not be levied except in the manner prescribed by the Constitution. The question, therefore, was squarely presented, "What is a direct tax within the meaning of the Constitution?"

16. The court, speaking through Mr. Chief Justice Fuller, answered:[1] 1. That the distinction between direct and indirect taxation was well understood by the framers of the Constitution and those who adopted it. 2. That under the State systems of taxation all taxes on real es-

tate or personal property or the rents or income thereof were regarded as direct taxes. 3. That the rules of apportionment and of uniformity were adopted in view of that distinction and those systems. The tax, therefore, was unconstitutional.

17. What is the economic distinction between a direct and an indirect tax? A direct tax is borne by the people who pay it; an indirect tax the payer expects to throw off or collect from some other persons. For example, a tax imposed on imports is generally regarded as indirect, because it is assumed that the taxpayer will sufficiently increase the price of his goods to cover the tax, and thus throw it off on the buyers. Such a tax is said to be paid by the consumer, or is a tax on consumption. While some taxes fall readily enough within this division, other taxes are near the dividing line and cannot be easily classified as direct or indirect. A tax may be laid supposing that it would be thrown off by the taxpayer on another, but who may be prevented from doing so by circumstances unknown to the taxing authority. It is thereby converted into a direct tax, contrary to the legislative intention. Suppose a landlord's real estate tax is increased during a period of depression in business, when he can collect only with difficulty his full rent from his tenant? If his tax is raised under such conditions he will be quite unable to throw it off on his tenant, and it must be paid by himself. Suppose, on the other hand, that the tax is increased during a time of prosperity, when the tenant is making money rapidly? The landlord now insists on increasing his rent because his tax is higher. As the tenant can pay the increase, he will probably do so and the landlord will escape partly or entirely the additional burden. The tax would then prove to be indirect. The question, therefore, cannot be always answered by looking at the form of the tax, but rather at the circumstances and surroundings of the taxpayer.

18. During the early days of the Government many

thoughtful persons favored direct taxation, believing that the people, feeling the burden, would watch expenditures more closely. Experience has exactly reversed this belief, especially in the large cities. In them taxes have been drawn directly from the people, yet in them expenditures have been incurred under their very eyes, in defiance of economy and often of honesty. The people have rarely taken an efficient step to lessen abuses. On the other hand, the National Government, which has been maintained for most part by indirect taxation, has been more honestly and efficiently served. To this deduction are many qualifications. It is undoubtedly true that many municipalities have been served in an honest and efficient manner. Governing in some of the States, towns, counties, cities, has been as economical and as intelligent as any one could desire. The result is mixed and contradictory. In general, it may be said that the fathers of the republic were doubtless correct in their belief that when people felt the taxes keenly they would watch expenditure more carefully; and the reason why people have been so careless and unmindful of the wasteful and corrupt ways of the expenditure of public money is that they have not yet felt the taxes keenly enough to demand a reduction, which would necessarily lead to a reduction in expenditures.

19. Taxes have been variously classified by writers. We might say that no two have ever agreed on a classification. Some of them insist that it is quite impossible to work out an economic or consistent system, and that an empirical classification only is possible. In view of this diversity of opinion we shall not attempt to review any classifications, but simply endeavor to give an empirical classification of direct taxes, which, it is hoped, may serve a useful purpose.

20. First, we would classify some as personal. By these are meant taxes paid on the head—a poll tax is the best illustration.

21. Second, taxes on occupations. These consist of licenses and fees. They may be direct or indirect in their operation; that is, the licensee may pay his tax and think no more about it, or he may try to get his money back by demanding a higher price for his service or for the thing he is licensed to sell. It may be paid annually or for some other period. It may be imposed in the form of fees for different duties or acts performed by the licensee.

22. Third, a tax on income from wealth or from service. An income may be derived from two sources. The workingman gains his by performing daily labor. The man of wealth derives his, partly, at least, from the labor of others in the form of rents and interest, or profits from his business. Such a tax has long been imposed. In England, income taxes were first paid in 1798. An income tax was imposed on the people in the United States from 1861 to 1871. Its constitutionality was questioned during this period, but not determined by the highest tribunal. In 1894 another income tax law was passed and the Supreme Court of the United States decided by five to four that it was unconstitutional. The decision was so close that it can hardly be regarded as final or binding on the court should the question again arise.

23. Taxes on wealth itself. This is by far the most common form of taxation. Property taxes may be imposed on land, which in turn may be divided into (a) houses, (b) factories, (c) buildings for storage and exchange, and (c) land without any structure thereon. These four include all the forms of land.

24. Taxes are also laid on goods, which may be divided into (a) furniture and other articles of the household kept for permanent use, (b) merchandise bought and held for sale, (c) money used in business or lent or kept on deposit.

25. Lastly may be mentioned taxes laid on inheritances, or on property inherited by people beyond defined lines of relationship to the deceased.

26. As every person derives some benefit from the Government, whether National, State or municipal, he ought to contribute something toward its maintenance. Whether he is able to pay a tax or not is another question, but his duty to do so is unquestionable. He receives a real benefit; a real service is performed for him in securing his life, liberty and wealth. In a larger sense he gains from the existence of society, which is preserved by the State. For this purpose does society create the State. But for all this somebody must pay, and, as all are benefited, all ought to contribute to the common good or end.

27. For these services a tax should be paid by or for all the members of a family. As all share in the benefits thus rendered by the State, a contribution should be required of all. We know of no reason why a tax should be confined simply to the man who wields the power of suffrage or possesses wealth. It is levied, or should be, because the State must be furnished with the means for providing security to its members, whether men or women, old or young. Why, then, should not all pay alike, for the service is one of equal worth to all? It may be true that from a philosophical or moral point of view lives may be valued unequally, but to all life is a precious thing, even to the poorest and meanest, as the poet said long ago:

> For who to dull forgetfulness a prey
> This pleasing, anxious being ere resigned,
> Left the warm precincts of the cheerful day,
> Nor cast one longing, lingering look behind?

28. Not only should all pay, but a larger amount for personal protection than they pay now, and for the obvious reason that personal security and enjoyment are of the highest worth. As all know, the tax now imposed is trifling, and with a tendency to shrink, since the extension of the suffrage. Indeed, as the power to govern extends, the safeguards against ignorant and corrupt governing are removed, and among others the repeal or dim-

inution of the head tax that operated to bar out the less thrifty and intelligent class, which is the least fitted to take part in electing the officers of government and in making laws.

29. Let us then inquire what taxes ought to be paid by all, and afterward by whom they are paid? and lastly, why they do pay them? When these three questions are rightly answered some of the darkness surrounding the subject will disappear.

30. The taxes needful to pay the cost of preserving personal security and enjoyment should be borne equally. So should the cost of supporting criminal justice.

31. Civil justice, as we have shown, ought to be more nearly self-supporting. A wrong-doer ought to be required to make amends to the person he has injured, and also to the State for infringing the laws. The lightest penalty that ought to be imposed on him is the entire expense for conducting the proceedings against him.

32. In an ideal State we believe that officers should be appointed to conduct all civil suits, instead of limiting their functions, as is now done, to conducting criminal prosecutions. Why should such a distinction be made? Is not a person who refuses to execute a contract a law-breaker? If he is, why should he not be compelled to pay a penalty for his infraction, and why should not the State act as a prosecutor?

33. In many cases a State would be unable to obtain a money satisfaction on its judgments; the person prosecuted would be unable to pay. What should be done in such a case? This expense at first must be borne by the State, whether anything could be subsequently recovered would depend on the debtor.

34. All the expenditures for the preservation of health—diseases to men and animals, the inspection of food—come under the head of necessary expenditures, and all should be equally taxed to pay for them. As the

benefit is personal, every person should be required to pay equally for the service thus rendered.

35. Having shown why all ought to pay taxes, it may be remarked that those who possess wealth ought to pay more than those who have none because the State renders a greater service to the wealthy. But how much one should pay for the security and enjoyment of his life, and how much for the security and enjoyment of his wealth, are questions not easily answered.

36. As many who ought to pay are unable to do so, it follows that those who have the means must pay in addition to their own taxes a portion of the taxes of those who do not pay theirs. This they must do to maintain the State; there is no alternative. In the time of Richard II. the wealthier were required by positive law to contribute at least one groat nor more than sixty in addition to the general contribution of three groats exacted of every person above fifteen years of age. On what principle is the exaction of additional contributions justified? The general opinion is that of ability. The service for securing private property rests, we think, on a different foundation. Prof. Seligman says that "we must disabuse ourselves of the idea that property as such owes any duty to pay taxes. The State has direct relations not with property, but with persons. It is the individual who, from the very fact of his existence within the State, is under definite obligations toward the State, of which the very first is to protect and support it. The State, indeed, can exist without the particular individual, but the individual cannot exist without the State." But the service rendered by the State to those who have property is greater than to those who have none; and if a just and practicable method can be adopted for dividing or apportioning the service, why should not this be done?

37. Keeping this distinction between the two forms or kinds of taxation clearly in sight—the one form that is just and proper, which ought to be paid by all alike, and

the supplementary or secondary form, which is in the nature of an unwilling gift, contributed in consequence of the inability of others to fulfill their duty to the State—this supplementary tax ought to be levied and collected on the most just principles. If the functions of a State were confined to necessary and justifiable expenditures, the amount exacted from all would be greatly lessened; but as they are not, and questionable ones are incurred which ought not to be paid by any one, the evil is greatly increased. Such contributions cannot in a true sense be called taxes, because they are not paid for any real service performed by the State.

38. In collecting taxes the State too often proceeds in a rough and inconsiderate manner. Those who are best able to pay, who have the largest income, and the most influence, often escape without paying anything like their proper share. Those who possess less wealth and influence suffer most. This is one of the great evils of our time. A large class, perhaps without employment and possessing a moderate income, small householders and the like, are taxed far more heavily in proportion to the value of their property than larger corporations. The remedy for the taxpayers who are unfairly assessed lies in united action. And the justice is all the stronger for this union to resist the payment of a tax representing the unpaid portion of those who have more ability but shirk payment.

39. In levying a tax the State proceeds on the principle that the person who is required to contribute ought to pay the amount demanded from him, or to act as an agent or instrument to draw the money for others. One of the best authorities of our times, Bastable, insists that every State in levying taxes has regard to their incidence or the probabilities that taxpayers will throw their taxes off. Some kinds of taxation are indeed levied wholly on this principle. Indirect taxes are levied with the expectation that taxpayers will add them to the prices of the arti-

cles taxed, and thus require others ultimately to pay them. In other words, an indirect tax is levied on things, on property, and the owners are regarded merely as agents of the State to collect it of purchasers and consumers.[3]

40. One of the best illustrations of an indirect tax, which perhaps is more successfully collected than any other, is the octroi tax, paid by the sellers of produce in many foreign cities when going into them with their merchandise. Such a tax, it is supposed, will be added to the price and paid by consumers; and as the merchandise in most cases is much wanted—consisting of the necessaries of life—doubtless the taxes are easily collected.

41. It must be admitted that in very many cases indirect taxes are grossly unequal, because collectors are unable to levy them, either wholly or in part, on the persons to whom they sell their products.

42. As the incident of taxation is so unequal, the State should be very careful in establishing a system of taxation based on uniform or equal diffusion. A few years ago an eminent economist prepared a new system of taxation for the State of New York. Believing in the incidence or diffusion of taxes, he proposed that the principal tax should be levied on land, which would be diffused through the action of its owners by increasing the price of their products. But it was clearly shown that the farmers raising wheat in the far West at a lower cost and not thus taxed would be able to undersell their New York competitors. Such a system of taxation, therefore, if adopted, would have compelled the farmers to pay the tax themselves.

43. Is it true that every person tries to escape the incidence of a tax, or rather to escape the payment of the tax itself? And if so, to what extent does he succeed?

44. First of all, no one can succeed who is out of business. As this is a large class, producing nothing, no member has any means of throwing off a tax.

45. Again, those who are engaged in competitive business and selling at a lower price than others, if subjected to a tax, are unable to throw it off on others. To do this would enhance their prices and diminish still further their sales, consequently they must bear the burden themselves.

46. When such obvious cases are mentioned it becomes at once evident that the incidence of all taxes operates unequally. In times of depression especially, when prices are shrinking, it is more difficult to throw off taxes on others than when the opposite conditions of business exist. Perhaps in times of prosperity, when all are flourishing and prices are rising, persons may be able to transfer the burden of taxation to others, but this transfer must be confined very largely to such conditions as are becoming less and less frequent.

47. If a tax is imposed on an individual, how does he attempt to throw it off on another? By raising the prices of the thing he has to sell, whatever it may be. When he advances prices, a customer can do one of two things, either he can purchase with the expectation of selling at still higher prices and thus transfer the tax to another, or decline to pay the advance and seek another seller. What he will do, of course depends on circumstances. If the thing is desired for consumption, for use in his own home, it is no affair of the State whether he pays a high price or a low one. If he growls over the tax that is levied, then the State in most instances can make a good answer by saying that if he did not wish to pay the tax he could escape by going without the thing purchased, and this he can do except for necessities. If the thing desired does not come within the doman of necessity, then he can certainly act with great independence; and if he does not, but insists on purchasing and regards himself as a sufferer, it must be remembered that this suffering is self-imposed, and consequently he cannot very seriously complain of the conduct of the State. The case is quite

otherwise when the tax is imposed on things that are necessary to life.

48. If these deductions are correct, so long as the State imposes indirect taxes instead of taxes on income, it ought, so far as possible, to draw its funds from things that are not necessities. For one fundamental principle of importance is involved in such taxation, namely, that in paying a tax on things that are not necessary to one's physical comfort and well being the taxpayer acts voluntarily, and therefore he cannot as justly complain against the conduct of the State, for he can escape the payment of such taxes by refraining from the use of the articles on which they are imposed. Such a course cannot, of course, be followed when the State taxes necessaries, like the grains and fruits of the earth and the land on which they are grown, but it does apply with great force to tobacco and spirituous liquors. This is one reason why in every civilized State these things have been singled out for the highest taxation, and why the Government should continue to impose them. The only limit that a State should observe is a tax that will not lead to smuggling and frauds. Until this limit is reached the State is quite justified in imposing as large a tax as may be needed that can be collected.

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[a] Seligman's Essays in Taxation is regarded as the most thorough presentation of the subject, so far as the field is concerned, by any writer. Chapter 14 in Prof. Hadley's Economic is one of the latest general contributions.

[1a] Direct and Indirect Taxes in Economic Literature, by C. J. Bullock, 13 Polit. Science 2, 442.

[2] Pollock v. Farmers' Loan and Trust Co., 137 U. S. 558.

[3] No American writer, indeed no writer, has studied this subject so exhaustively as Prof. Seligman. See his "Shifting and Incidence of Taxation," which also contains a very full bibliography.

CHAPTER XVIII.

NATIONAL REVENUE FROM IMPORTS.

1. The taxation of imports.
2. Ought the government to impose anv taxes on imports?
3. Difficulty in getting a revenue from the states.
4. Should a revenue be collected without regard to the consequences to home producers.
5. Should a revenue be collected both for revenue and protection.
6. Should a revenue be collected primarily for protection.
7. Review of arguments on the subject.
8. An impost tax is not necessarily paid by the consumer.
9. When it is paid by him.
10. When a tax intended to be protective fails to be so.
11. The amount and variety of protection furnished by the government.
12. Illustrations of state protection.
13. Illustrations of municipal protection.
14. Extent to which such aid is given.
15. Who have forfeited all right to the continuance of national favor by violating the principle on which aid was granted.
16. Why protectionists have generally favored large expenditures.
17. In changing its policy the government should regard its former action.
18. Our national policy should also have reference to those of other governments.
19. The desirability of establishing reciprocal arrangements.
20. If the government aids one interest needing protection, it must aid all.
21. Impossibility of aiding all because their interests are so conflicting.
22. Conflict between the wood and grain alcohol manufacturers.

1. We shall now describe the different sources of national revenue, beginning with an indirect form of taxation, the taxation of imports. The revenues collected

have varied from year to year with the changing wishes and fashions of the people, their ability to purchase, and the laws fixing the rates on imported merchandise.

2. Whether these are proper subjects of taxation is a question on which opinion converges around four answers. The first is that the Government ought not to impose any taxes on imports, collecting the means needful to sustain itself directly from the States. If this plan were adopted, the Government would dispense with many officials; and very likely national economy would be greatly promoted, as the States would be strongly inclined to confine national operations within narrow limits.

3. On the other hand, the difficulties of drawing a revenue from the States would be very great. Each State would seek to contribute as little as possible, leaving the burden to fall more heavily on its neighbor. The same principle which now operates toward unequal contributions by municipalities to sustain the State would act with stronger force.

4. Another opinion, held by a larger number, is that the Government should collect a considerable revenue from this source, but without any reference to the protection thus afforded to home producers of commodities similar to those imported.

5. Another opinion is that a considerable revenue should thus be collected on imports, chiefly to extend the protection that may be afforded to promoting home industries.

6. A fourth opinion is that the revenue obtained from this source should be collected with the double object of providing for public wants, and also of protecting American producers of articles similar to those imported. Of the two objects, it is contended that, perhaps, protection to home industries should be the most important in imposing a revenue on imports.

7. These contradictory opinions have been so often

combatted and defended that we shall simply escort the reader to the base of the mighty mountain of literature that has risen on the subject, where he can dig and blast, if he desires, during the remainder of his life.[1] To facilitate his investigation, a brief summary may be given of some of the points touching the question.

8. The imposition of a tax on imports does not necessarily increase the price paid for them by consumers. The tax may come out of foreign sellers as deductions from their profits; or it may be paid by importers; or it may be borne by subsequent purchasers before goods reach consumers. It may be divided and borne in varying amounts by all the parties mentioned. Or, the effect of the tax may be prohibitory, though not raising the prices of things produced in the prohibited country.

9. If the tax be added to the price of the goods imported and bought by consumers, they suffer to that extent by its imposition.

10. If consumers pay the tax and recoup or save themselves from loss by adding more to the things they sell, and those who buy them similarly increase the prices of their products and services, the tax as a protective measure is a failure. It cannot possibly be protective when the price of labor and all other products are raised correspondingly with the increased price of the products imported. Of course, every increase in each element that enters into a protected product increases the cost and diminishes the profit thereon to the producer.

11. The amount of protection furnished by the Government to various classes is much more general than many imagine. It does not stop with the imposition of taxes on imports. The exceedingly low rates at which most of the second class mail matter is carried involving a loss of many millions to the Government, which is made up by others, is a rank form of protection. In many cases the favored are so blind that they do not see what the Government is doing for them while they are de-

nouncing its assistance to others. Bankers often are sturdy believers that the Government should grant no protection to American manufacturers; yet many of them have been very loud in their denunciation of the Government's unwillingness to issue gold certificates against gold which they wished to deposit with the Sub-Treasurer in New York city, simply to save themselves the trouble and expense of building a place in which to store it. We can conceive no just reason why the Government should act the part of warehouseman to store the gold of bankers, and to decline to act thus for the merchants and farmers. There is nothing peculiar about gold whereby the Government should take it under its wings, either gratuitously or for a reward.

12. A similar illustration is found in the protection laws enacted by many of the States forbidding outside insurance companies from transacting business within their borders; and also forbidding their citizens from insuring in outside companies. Why should the interests of one class of citizens in a State be sacrificed by law for the interests of another?

13. Numberless ordinances of a similar character have been passed by cities and other municipalities. No wonder that those who have not yet been favored think that the time has come for claiming their share! No wonder that communism and socialism are making large demands! They are the logical and legitimate outcome of the unequal and favored legislation granted by governments.

14. A careful study of legislation will reveal much intended or accidental protection outside tariff laws, varying greatly in sweep and effectiveness. Under the guise of improving harbors and rivers, many a locality has been aided to the detriment of another. Of this nature are all the grants for local expositions, and also much of the work done by the Geological Survey; bounties to sugar growers and the like.

15. Whatever justification may have once existed for this legislation, it has been certainly lost in all those cases in which the protected interests have united for the purpose of selling their products at excessive prices. Whether a trust should be condemned or not depends entirely on its methods. We can discover no wrong in law or morals in the united action of all engaged in a common industry. On the other hand, many good results may follow from such a union. All turns on the policy pursued. If a trust seeks to get only a just return on its capital, no consumer can rightfully complain; if it seeks to get an excessive return, then he has a good cause for complaining. Unhappily, many trusts go beyond the right line and seek to get excessive profits. In so doing they commit a double vice. For one of the cardinal objects of protection has been to build up American industries, freeing the people from dependence on foreign producers, who, so runs the assumption, would be merciless in their dealings, and extort the highest prices they could obtain. But American producers, when following precisely the same course as was expected of foreign producers, have forfeited all claim to protection, and the Government can no longer favor them without flying in the face of the principle on which it was first granted. Whenever protection results in destroying home competition, whether by the action of the competitors themselves, or in other ways, it fails in its purpose and can be no longer justified.

16. Another consequence of the protective system is to cause discontent among those who are not protected. To remedy this, many protectionists have been willing that the Government should extend its province with the view of aiding and mollifying this class. Consequently, protectionists have generally favored "liberal expenditures." Thus it will be seen that protectionism, by favoring the extension of the functions of the Government, is allied with extravagance and socialism.

17. In any change that may be made the Government should have due regard to its former action. It has no right to smite down any class or interest which it has created, even though unwisely. On the other hand, it is contended that all receiving public protection have realized the uncertainty of its continuance, for neither Congress nor the State Legislatures nor municipalities can bind their successors.

18. The action of foreign governments in imposing taxes on American products may justify the National Government in a course which would not be justified if American products entered foreign ports without restriction. In other words, if foreign governments impede and restrict the operations of American exchangers and producers, our own Government is justified in taking such measures as the action of foreign governments may require. A tax thus imposed is regarded as retaliatory, though in effect protective.

19. To obviate such international difficulties, the nations of the world should endeavor to establish reciprocal arrangements.

20. If the Government continues to protect any class, logically it must grant protection in equal measure to all who need it. It has no right to single out one class and exclude another; to favor the manufacturer and disregard the farmer and workingman. Justice should be rendered to all if the Government must play the paternal role. But the country is so vast, the population so great, interests are so varied, that the task of aiding all equally is quite beyond the achievement of the Government; and it cannot continue the distinct policy of protection without deepening and spreading the disaffection it is so vainly trying to allay.

21. On the presentation of the last tariff bill for the consideration of the Senate, Senator Aldrich, chairman of the Finance Committee, remarked: "The industrial system of the United States is growing more and more

complex every year. It is becoming more difficult every year to satisfy, in a tariff revision, conflicting claims of sections, or to so adjust rates as to do no injustice to any of the varied interests of this great country.[2] We have no pride of opinion or authorship in regard to any of the provisions [of the bill] reported." Remembering the multitudinous influences that entered into the bill, its extremely artificial and personal character, well might the Senator in genuine humility say that he had no pride of opinion or authorship in the measure.

22. An impressive illustration of the complex nature of a tariff law may be drawn from the report of a committee of Congress appointed to investigate into the desirability of relieving those who use alcohol in the arts from paying taxes. It was shown that they would save much if they were no longer required to pay the tax. But they were opposed by the manufacturers of wood alcohol, who asserted that if the tax were removed their business would be ruined, as wood alcohol could be sold as cheaply as untaxed grain alcohol and would be preferred. A prominent witness described how the charcoal iron manufacturers would be injured if the tax were removed, because the wood alcohol manufacturers were able to supply charcoal at very low prices. But they, in establishing the wood alcohol industry, had ruined the manufacturers of pit charcoal. Thus, an industry which had killed another was asking the Government to protect it from another industry that threatened its life. What could the Government do? Alas! Alas! The Government was sorely puzzled to find out how to help all and injure none.[3]

[1]Nothing more can be attempted than to refer to some of the more important and newer sources of information. Of course, the reader knows of the huge quarry composed of the reports and speeches of members of Congress. Perhaps those in quest of information are too much inclined to ignore these sources, thinking that they have been prepared too crudely and with too much partisan spirit to be worthy of study. But every argument may be found in them, besides numerous fig-

ures and statistics. The evidence collected by the Tariff Commission of 1882 is a vast mine of varied information, and so are the volumes entitled "Tariff Hearings Before the Committee of Ways and Means," No. 338, 54 Cong., 2 Sess. The ablest exposition of protection from the speculative point of view, doubtless, is H. M. Hoyt's "Protection vs. Free Trade"; see also S. N. Patten's "Premises of Political Economy." Other works dealing with the subject from historical and practical sides are E. H. Roberts' "Government Revenue," R. E. Thompson's "Protection to Home Industry," and D. H. Mason's works, "How Western Farmers Are Benefited by Protection" and "A Short Tariff History of the United States."

For facts and arguments opposed to systematic public protection, see A. L. Perry's "Introduction to Political Economy," W. G. Sumner's "Collected Essays in Political and Social Science," E. L. Godkin's "Problems of Modern Democracy," especially the chapter on "Some Political and Social Aspects of the Tariff"; D. A. Wells' "Practical Economics and Recent Economic Changes"; the series of works, "Questions of the Day," published by G. P. Putnam's Sons, and frequent articles in The Nation.

[2]30 Cong. Record, Part 2, p. 1233.

[3]Senate Report No. 411, 55 Cong. 2 Sess. and No. 1141, 54 Cong. 2 Sess. For an account of another clash of interest by the tariff, see discussion in the Senate about the tariff on lead ores, the miners desiring a high tariff to shut out foreign ores and the silver smelters, who use lead ores for flushing, a lower rate. 30 Cong. Record, Part 2, p. 2100. See also the conflict between the gold producers using the cyanide process to reduce gold ores and the cyanide producers, 30 Cong. Record, Part 3, p. 2259. For the conflict between the growers and manufacturers of wool, see 30 Cong. Record, Part 3, Appendix, p. 54.

CHAPTER XIX.

THE COLLECTION OF TAXES ON IMPORTS.

1. Division of the ports into districts.
2. Mode of compensating the collectors.
3. How they are appointed.
4. Principal places where the revenue is collected.
5. How the work of collecting is done in New York.
6. Duties of the collector.
7. Duties of the naval officer.
8. Same subject.
9. Should the naval office be abolished?
10. Is it superfluous?
11. It lessens fraud.
12. Duties of the surveyor.
13. Duties of the appraisers.
14. Creation of the board of general appraisers.
15. Defects in their method of work.
16. How they can be lessened.
17. The refunding of duties.
18. The process described.
19. Appeals.
20. Force of the decisions of the board of general appraisers.
21. How liquidations are made when decisions are pending.
22. Action after the rendering of a final decision.
23. Frauds in importing.
24. How they are perpetrated.
25. Superiority of the system of specific duties.
26. Theoretically the system is less perfect than the ad valorem system.
27. Too many ports are kept open for the collection of duties.

1. The United States is divided into one hundred and twenty-six districts for the collection of taxes on imports. The coast of Maine, for example, is divided into twelve districts, New York into ten districts, Pennsylvania into three districts, and so on. The chief officer of every port is the collector. Besides the collector there is

a surveyor and an appraiser. In six ports—Baltimore, Boston, New York, New Orleans, Philadelphia and San Francisco a naval officer assists in the work. These officers are nominated by the President and confirmed by the Senate, and receive as a compensation annual salaries ranging from $12,000 for the collector of New York to $150 for collectors in the smaller places.

2. Formerly, the mode of compensation was by fees, but this system, as can be readily imagined, gave rise to the grossest abuses. For the old system of compensation the present system of fixed compensation has been substituted. The appropriation for this purpose is a permanent one of $5,500,000, besides the fines, penalties and forfeitures connected with the customs and the fees paid into the Treasury by custom officers and from cartage, drayage, labor and services. The amount is too small, and the annual deficiency is appropriated in the deficiency bill.[1]

3. A word may be added concerning the individuals employed in collecting these revenues. The total number is 5,103. Of these 215 are appointed by the President and confirmed by the Senate; the employment of 4,464 is regulated by the civil service rules.

4. Most of the revenue is collected in a few places. The net receipts for 1899 were $206,128,481; of this amount $136,772,815 were collected at the port of New York. Four other ports at which much larger amounts were collected than any others besides New York were: Philadelphia, $22,344,052; Boston, $15,606,781; San Francisco, $6,570,136; Chicago, $6,405,880.

5. In the principal port of entry, New York, the work of collecting duties is performed by four offices—the collector's, the naval, the appraiser's, and the board of review. The duties of each office may briefly be described.

6. The collector receives reports and other documents relating to the entry of vessels. He also estimates,

with the assistance of the naval officer, the duties that are to be collected, receives the money, grants permits for loading and delivering goods and, with the approval of the Secretary of the Treasury, employs the weighers, gaugers, measurers, and inspectors of the ports within his district. He also provides, with the Secretary's approval, storehouses, scales, weights and measures needful for storing and determining the duties that must be paid on goods.

7. The duties of the naval officer are to go over the work of the collector's office and insure its accuracy. It was supposed, when establishing the system, that errors would happen in the calculations, corrupt practices creep into the collection of revenue, as the temptations would be so great, so naval officers were established to revise and watch the work of the collector's office. More specifically he receives copies of manifests and entries, estimates with the collector the amount of duty that must be paid, keeps a separate record of such entries, countersigns permits, clearances, debentures, certificates and other documents granted by the collector, examines the collector's abstract of duties, accounts of receipts, bonds, and expenditures, and certifies to their accuracy.

8. Furthermore, he examines the collector's and assistant treasurer's accounts quarterly in New York, and oftener if directed by the Secretary of the Treasury. In short, he peforms pactically the same duties as the collector, except those of receiving money and employing gaugers and other officers, and providing storehouses and scales as above mentioned.

9. While the continuance of such an office in New York is regarded as desirable by those who have made special inquiry into the working of the collecting system, yet they have also recommended no less strongly the abolition of all the other naval offices. And indeed the system is an anomaly, for while no such office exists in

Chicago, where eight millions or more of revenue are annually collected, such an office does exist in Baltimore, where the collections are not one quarter as great.

10. To many the office would seem to be superfluous. It may be asked, "Why should the work of collecting the revenue be revised by a second officer any more than the work of any other important business outside that of government, the work of a great railway corporation, for example?" The answer always given is, "Because so much money is received, and the nature of the business is so difficult." There are many questions of a legal character relating to the rates of duty that should be imposed; but these are outside of the work of accounting, and are properly considered in other ways.

11. Again it may be answered that the government has always accounted for all of its receipts and disbursements at least a second time, and in many cases three or four times, to correct mistakes and to guard against frauds. While many criticisms have often been made against the red-tape methods of the government which existed until 1894, to some extent they operated as checks against fraudulent practices.

12. The duties of the surveyor are numerous. He superintends and directs the inspectors, weighers, gaugers and others, reporting weekly to the collector concerning absentees; reports daily in the morning to the collector the details of the previous day's arrivals from foreign ports, names of vessels, from what ports they came and other particulars relating to them. He puts on board of every vessel at least one inspector immediately on its arrival, ascertains the quantities and amounts of distilled liquors imported, examines whether the goods landed correspond with the permits for landing them, and superintends the lading of goods for exportation, of collecting drawbacks, bounties or licenses, and examines and reports whether such goods correspond with the entries and permits.

13. The appraiser supervises the examination, inspection and appraisement of such merchandise as the collector may direct, and also revises and collects the reports of the assistant appraisers.

14. In 1890, a board of nine general appraisers was appointed, of which three members were to constitute a board of appeals in New York. To this board appeals from the decision of the collector may be taken. The decision of the board is final, unless the appeal is taken to a Federal court. Such, in brief, is a description of the duties of the principal officers concerned in collecting duties.

15. In a report by experts appointed in 1895 to examine the Executive Departments it was remarked that the basis of collecting duties by the government was the appraisal of merchandise, thereby fixing its dutiable value and giving the collector such information as enabled him to classify it. While every operation in the custom-house was duplicated by the naval officer, there was no check on the work of the appraiser. Indeed, from the nature of the business, it was difficult to establish one. As only some packages of an invoice were selected for appraisal, and the business would be delayed if duplicate appraisals were made, it was almost impossible to supervise the work of an appraiser. It seemed wise to improve the appraiser's department.

16. How was this to be done? The experts thought that a branch of the government service might be established, called a board of general examiners. They should be selected for their technical and expert knowledge of merchandise, receive proper compensation for the ability required of them, and be subject to the direction of the Secretary of the Treasury in their removal from one port to another. They should be under the direction of the appraiser and assistant appraisers, but act independently in arriving at their conclusions. Such a board would strengthen the customs service at its weakest point. It

was estimated that the increased protection to the government would more than compensate for the cost.

17. In 1890, a law was passed providing for the refund in some cases of duties. When the collector is in doubt whether duties ought to be collected or not, the decision is in favor of the government, and if the importer is dissatisfied, he forthwith takes action to recover the excess or full amount. This is the reason why the government so often fails to collect duties. If the practice was not adopted of exacting, or at least securing the duty even in doubtful cases, the government would be a more frequent loser.

18. By the refunding act a merchant or importer can make a complaint within ten days after he has paid the duties required, or within ten days after their assessment and liquidation. When this appeal has been made, the collector transmits it to the board of three general appraisers, who may be on duty, or to the board of three general appraisers who may be appointed by the Secretary of the Treasury. They make a reappraisement, and their decision is final, except in cases of appeal taken to the United States Circuit Court within thirty days after the board's decision.

19. "An appeal can be taken to the Supreme Court within thirty days. If allowed by the lower court an appeal can be taken by the United States whenever the Attorney-General shall apply for it within thirty days after the decision of the lower court."[2]

20. The decisions of the board of general appraisers are written in duplicate, and one copy is sent to the collector and another to the Secretary of the Treasury. If an appeal is not taken therefrom by the collector or the Secretary within thirty days, liquidations are made in accordance with them. The general appraisers are governed in making their decisions by precedents, so far as they exist.

21. If a decision is pending on a class of goods, the liquidations of entries of other goods of the same character are not held back, but are made on the basis determined by the collector until a decision is rendered by the board of general appraisers. On the rendering of this, liquidations of all the entries based on the decision of the board are made. Liquidations are not reported to the Secretary of the Treasury except in a general statement made up in the office of the auditor of the custom-house.

22. When a decision is rendered by a court, then a certified statement is sent to Washington, and the decision, followed by payment by the Treasury Department, is held as a precedent for decisions in the future by collectors. No action is taken by him on a judicial decision until it has been promulgated by the Secretary of the Treasury.[8]

23. Notwithstanding all the precautions adopted by experience for securing the revenues, the remark is very trite that large sums are constantly lost through the ignorance, misconduct and fraud of collecting officers. Duties, like all kinds of taxes, are not paid willingly. Whatever may be the intention of the importer to add the tax to the price of his goods, often he tries to escape the payment of the entire amount, or a portion if possible, consequently the undervaluation of goods is a constant occurrence.

24. Many exposures have been made of the tricks and devices adopted by importers to beat the government. One of the more common is to establish agencies on this side of the water to whom goods are consigned. A low valuation is fixed on the goods imported. If a person desires to buy goods in this country of a foreign house having such an agent here, the purchaser is respectfully referred to the agent in this country, instead of selling to him directly. The object of this is to prevent sales from which the government can obtain an accurate knowledge concerning their worth. The more perfectly

they have succeeded, the greater is their advantage over importers who deal honestly with the government. Consequently the business is passing more and more into the hands of those who have neither honesty nor pride in conducting it.

25. To make the calculation of duties as sure as possible, specific duties have been often imposed and collected instead of ad valorem ones. The ad valorem system, which consists in levying a duty on the value of things imported, while the most just in theory, opens the door widest to abuses.

26. Theoretically, the system of specific duties is less perfect than the other because calculations cannot be as carefully based on the actual worth of goods. Yet, when specific duties exist, many devices are constantly invented to defraud the government and relieve importers from paying a high rate of duty. The Wilson tariff, enacted in 1893, was based on the ad valorem system; so was the tariff of 1846. Generally, it is not favored by governments that impose duties on imports, because frauds can be more easily perpetrated.

27. Another obvious imperfection in the system is in keeping open custom ports where they are not needed. Successive Secretaries of the Treasury have tried to get authority to close them, but Congress will not act. Never was a more shameless system of wastefulness kept alive, for the cost of it is annually presented in the reports of the government. The following table shows how complacently wasteful Congress can be notwithstanding the efforts of every Secretary of the Treasury for more than twenty years to discontinue them.[4]

Port.	Receipts. for 1895.	Expenses.	Cost to Collect.
Albemarle, N. C.....	$78.52	$1,788.10	$22.77
Annapolis, Md.	28.45	956.25	33.61
Burlington, N. J.....	4.00	154.00	38.50
Castine, Me.	209.70	3,488.43	16.63
Cherrystone, Va.	.....	2,090.00	....

Port.	Receipts for 1895.	Expenses.	Cost to Collect.
Dunkirk, N. Y.	262.37	1,034.54	3.94
Edgarton, Mass.	395.11	2,324.58	5.88
Georgetown, S. C.	83.16	974.38	11.71
La Crosse, Wis.	5.71	350.00	61.29
Natchez, Miss.	1.10	500.00	454.54
New London, Conn.	898.81	5,239.63	5.82
Newport, R. I.	407.10	1,977.05	4.85
Pamlico, N. C.	407.80	3,559.14	7.46
Rock Island, Ill.	6.50	446.00	68.61
Teche, La.	23.07	3,479.80	150.83
Taquina, Ore.	82.40	1,100.00	13.34
New York, N. Y.	104,125,069.45	2,760,558.66	.026

[1]See Appendix A for expenditures in collecting the customs during 1896.

[2]Dockery's Rep. on Collecting Customs, 53 Cong., 3 Sess., No. 1975, 13.

[3]For a good account of the working of the act of 1890, see House Report No. 792, 54 Cong., 2 Sess. Also reports of the U. S. Atty.-Gen., especially for 1899.

[4]For an instructive report on the Consolidation of Customs Districts, see Breckenridge's Rep., H. of R., 49 Cong., 2 Sess., No. 3606, Jan. 15, 1887.

For history of Tariff Administration in the U. S. from Colonial times, see Goss' essay, Columbia University Studies, Vol. 1.

CHAPTER XX.

INTERNAL REVENUE.

1. From what sources internal revenue is collected.
2. The systems of 1790, 1813.
3. The system of 1861.
4. The present system.
5. Opposition to the system.
6. Number required to collect the revenue.
7. Cost of collection.

1. The Government collects a large revenue from distilled spirits, tobacco, fermented liquors, oleomargarine, banks, opium and playing cards. The amount thus collected in 1898 was $170,866,819, and in 1899, $273,484,573.

2. The first law authorizing the collection of internal revenue was enacted in 1790, and continued twelve years. During the second war with Great Britain in 1813 the system was revived and continued until 1817.

3. The third time the system went into operation was in 1861, during the Civil War. The system was not fully developed until the struggle was nearly closed; during 1866 the amount collected from this source was $310,906,984. After a few years the law was greatly modified, leaving it in operation only on the articles above mentioned.

4. In June, 1898, another act was passed, increasing the taxes on some of the articles above mentioned and imposing fresh taxes on documents, proprietary medicines and other preparations, sales of stocks, legacies, theatres and on some other things.

5. There was a time when many friends of the protective system advocated the repeal of internal taxation and the collection of all revenue needed from imports. Their opponents contended that every enlightened government imposed heavier taxes on spirituous liquors and tobacco than on any other products, as they were luxuries and could be imposed with greater advantage to the public welfare than any other taxes. The system has survived, and the expenditures of the government have so enormously increased that it doubtless will remain a permanent source of revenue.

6. To collect this revenue 63 collectors are employed, who receive salaries ranging from $2,000 to $4,500, and 955 deputy collectors, who are paid in the same manner.[2] In the offices of the different collectors are employed 185 clerks, besides porters, messengers, janitors and a large number of gaugers and store-keepers.

7. The cost of collecting the revenue varies somewhat from year to year. Thus the cost for 1899 was $4,591,754, or 1.68 per cent. of the amount collected. For the previous year the cost was 2.29 per cent. The cost varies far more for collecting in the different districts, as may be shown by a few examples:

	1899.	1898.	P. Ct. 1899.	P. Ct. 1898.
Arkansas.	$269,936	$104,576	12.63	30.34
First Col.	3,724,964	2,096,867	2.52	4.06
First Ill.	14,748,449	5,884,597	.73	1.37
Fifth Ill.	21,922,965	22,837,553	.49	.42
Georgia.	941,726	453,751	9.56	19.13
South Car.	490,633	211,212	10.97	22.28
First N. Y.	8,710,430	6,384,387	.71	.83
Second N. Y.	16,611,196	3,000,931	.53	2.32
First Mo.	14,380,593	8,394,140	.53	.85

[2]Besides his salary a collector receives a commission of one per cent. on tax-paid spirit stamps and in some cases an additional compensation. The gross amount in no case exceeding $4,500.

CHAPTER XXI.

NATIONAL REVENUE FROM THE SALE OF LAND.

1. Income from this source.
2. Recent Indian purchases.
3. Receipts from sales.
4. Quantity of vacant land.
5. Profit is not the object of the government's policy.
6. Grants to individuals.
7. Longevity of their claims.
8. Grants to railroads.
9. Errors and frauds in surveying.
10. Condition of the timber-stealing industry.
11. Rapid extinction of the national domain.

1. The national domain includes the cessions made by the original States to the Federal Government, and known as the Western Reserve, which contains 258,452,-629 acres. The later accessions were: Louisiana purchase, from France, April 30, 1803, 561,272,637 acres; Oregon country, by discovery and treaty with Spain, 181,291,018; Florida purchase, from Spain, February 22, 1819, 41,972,340; Mexico cession, February 2, 1848, 328,749,635; Texas purchase, November 25, 1850, 64,-607,433; Gadsen purchase, from Mexico, December 30, 1853, 29,142,400; Alaska, from Russia, March 30, 1867, 369,529,600; Indian purchases since 1887, 32,252,540; total, 1,867,270,232 acres.[a]

2. The Indian purchases above mentioned, for which the Government has paid, or agreed to pay, $28,261,937, require explanation. All of the laws providing for the purchase and settlement of the Indian lands contained a proviso that each settler or private purchaser, besides paying the small fee required by the Homestead law,

should, at the end of five years, pay a sufficient price to reimburse the Government when all the land was sold. With this provision, expressed in the clearest language, members of Congress from the East, South and Middle States joined with the members from the Western States in making these purchases. As soon, however, as they were completed the members of both houses from the far Western States introduced a bill for throwing the lands open to settlement on the same terms as other Government lands, the purchase and ownership of which rested on no such underlying agreement. At first they made slow headway; the agreement was recent; too many who had voted for these purchases on this condition were still members. But those who introduced the bill were persistent. The membership of the House and Senate changed, while the supporters of the measure lost nothing by time and change. The opposition grew weaker and weaker, and at last succumbed. A bolder and less defensible trick was never played in a legislative body.[1]

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[1]In the speech of D. T. Flynn, of Oklahoma, May 3, 1900, 33 Cong. Record, p. 5,661, in favor of the free homestead bill he said: "I admit that when our people went upon these lands they did so knowing that the government expected to receive $— to $2.50 an acre for them." The speech contains some valuable statistics on the subject.

Said Mr. Cannon, chairman of the committee of appropriations, during the debate in 1901, on a bill for the purchase of land from the Crow Indians: "I am tired of Uncle Sam buying and buying land and paying three or four or a dozen times what it is worth to the Indians, and then opening the land to settlement and turning around and giving it to the settlers. We were buncoed to the extent of between thirty and forty million dollars. * * * I am not for taking any more gold bricks under a suspension of the rules, with twenty minutes' debate on a side." 34 Cong. Record, 2118.

See also the Senate Reports of the majority and minority on this subject, printed in 29 Cong. Record, pp. 361, 490.

For reasons for and against the bill see speeches of R. J. Gamble, May 16, 1900, 33 Cong. Record, p. 6,007; J. F. Saffroth, July 5, 1898, 31 Cong. Record, p. 7,447, May 3, 1900, 33 Cong. Record, p. 5,666; F. M. Eddy, Jan. 22, 1898, 31 Cong. Record, p. 1,084, in favor of the bill, and that of J. W. Maddox, May 9, 1900, 33 Cong. Record, p. 5,719 against it.

3. The receipts from the sales of land are about equal to the expenditures for surveying and managing them. Thus in 1899 the expenditures were $2,399,803, and the receipts $1,922,567. For 1898 the expenditures were $1,392,618, and the receipts were $1,459,687.[2] Usually the expenditures slightly exceed the receipts.

4. The vacant lands, excluding Alaska, still remaining comprise 546,549,655 acres.[3] But a large portion of this is desert and barren land. It is thus classified by the United States Geological Survey in its report for 1894-95: Desert and grazing land, 332,176,000 acres; barren, irreclaimable waste, 69,000,000 acres; wood land and forest, 145,373,655 acres. Of this area it is estimated that 71,500,000 acres can be reclaimed by applying water. The portion, therefore, of the public domain fit for present agricultural purposes will soon be taken up if settlement continues at the old rate of about 6,000,000 acres every year. The following table shows the quantity taken up annually under the homestead law during the last eight years:

	Acres.		Acres.
1892	7,716,062	1896	4,830,915
1893	6,808,791	1897	4,452,289
1894	8,046,967	1898	6,206,557
1895	5,009,491	1899	6,177,587

It must be remembered that this does not represent the entire quantity taken up for settlement, as many railroad companies are large land owners and are constantly parting with it.

5. For many years the Government has subordinated the national domain as a source of revenue to the policy of its rapid settlement, believing that the general growth of the country was more desirable than any income that might be derived from the sale of its lands. The effects of this policy have been considered in another chapter.

6. Enormous grants have been claimed by private individuals, and the Government is constantly contending with them for ownership. Some of these contentions

have reached the courts, and titles have been settled by legal adjudication. Others have been determined by Congress. The McGarrahan claim, for lands in California, long occupied the attention of that body. Sometimes the claimant succeeded in getting a favorable report, and a vote thereon in one branch of Congress or in the other, but never succeeded in running the gauntlet of both houses and securing his claim. When an adverse decision is rendered, claimants generally appeal to the courts or to Congress, as nothing is lost by trying their chances before those bodies.

7. One of the unfortunate things concerning the Government is that no claim is ever outlawed. The law has wisely set up limitatons to the presentation and payment of private claims; parties die, evidence is destroyed, but no such law operates in favor of the Government, and consequently claims accumulate. As none are killed by adverse decisions of departments or courts, all still have a potential existence; and no one can tell, notwithstanding their antiquity, when they may be revived and finally paid. This remark applies with no less force to the claimants of public land; and doubtless they will continue to multiply until the Government ceases to be a land-owner. As long as there is anything to get, somebody will be around.

8. Another source of contention has been over grants of land to railroad companies. The aggregate amount patented to railroads and wagon road companies to June 30, 1898, is 90,934,889 acres. The total amount granted to them and still unpatented is still larger, 220,203,807 acres.[4]

9. Endless corruption has arisen in surveying and selling lands. The incompetence and fraud in surveying them have been often described by Government officers; new checks have been imposed; even now, after long experience, the methods for preventing frauds and obtaining accurate surveys are very imperfect.

10. The care of the public lands is a grave duty, but is poorly performed. The timber-stealing industry is fully developed, and the Government seems to acknowledge its inability to protect the public from depredators. So the industry will doubtless continue to thrive until all of the timber growing on public lands has been taken or destroyed by fire.

11. In short, the taking up and destruction of the public domain has gone on so rapidly that in a few years there will be no more to vex public officials or attract thieves. The amount of land left, excluding Alaska and the District of Columbia, is less than 600,000,000 acres, which, at the recent rate taken by settlement, gift and theft of 25,000,000 acres annually, will exhaust the supply in twenty-five years.

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[a]For a more detailed account of these purchases see Rep. of Secy. of Interior, 1899. p. iv. See also Donaldson's Public Domain; History of the Land Question in the United States, S. Sato, 4 Johns Hopkins Univ. Studies; Moody's Land and Labor; Phillip's Land, Labor and Law.

[1]For a valuable report on the proceeds from the sale of public lands see House Report, No. 996, 55 Cong. 1 Sess.

[2]In 1895.

[4]See Rep. of Com. of Gen. Land Office, 1896, p. 40; Id. 1895, p. 41, also to railroads and wagon road companies to June 30, 1898, is 90,934,889 acres. The total amount granted to them and still unpatented is still larger.

For other references besides those already given, mention may be made of the papers published in the censuses for 1873, '80 and '90 and of others by Messrs. Pinehot, Bowers and Fernow in 6 Am. Economic Assn. No. 3. Also in the Annual Rep. of the Land Commissioner.

Land Commissioner's Report for 1898, p. 48.

CHAPTER XXII.

NATIONAL REVENUE FROM MISCELLANEOUS RECEIPTS.

1. The amount received from miscellaneous sources.
2. Fraudulent rate of government property.
3. Disposition of money collected.

1. Besides revenues from imports, internal and income taxes, the National Government derives varying sums from miscellaneous sources. The Government has been a great builder within the last twenty-five years in the principal cities of the country, and not infrequently has sold buildings from which considerable sums have been derived. The following table contains some of the items of income derived by the National Government from different sources during 1896:

Copyright fees..	$78,876
Consular fees.	705,272
Passport fees.	41,321
Sales of ordnance material (War)	8,705
Sales of ordnance material (Navy)	19,801
Clothing and small stores (Navy)	437,821
Proceeds of sales of other government property	263,196
Rent of government buildings	25,341
For surveying railroad and private land claims	410,416
Tax on seal skins	1,100
Interest by Pacific railroads	958,356
Receipts applied to sinking fund—	
Union Pacific railroad	1,270,095
Central Pacific railroad	618,982
District of Columbia payments of water account	360,057
Revenues of District of Columbia	3,866,247
Total miscellaneous receipts	17,432,667

2. From the sales of Government property have flowed many abuses; happily some of them have been corrected within a recent period. The Navy Department formerly sold large quantities of Government supplies

that drew forth loud criticism. The mode of selling, by public auction, seemed to be fair, but the advertisements were meagre, enormous amounts were sold, few bidders were present, the sums received were small, and not long afterward the same things were resold to the Government as new supplies. This circular movement in the purchasing and selling of supplies received an elaborate airing during an investigation made by a committee of the Lower House of 1876.[1] It was shown that in thus selling and buying supplies the letter of the law had been followed; but it was evident that many things that were not needed had been purchased for the purpose of selling them. The law has been changed; now all sales must be by public auction, duly advertised. Of course, there is nothing to prevent bidders from combining. Of late years less criticism has been heard concernng these sales; and it is presumed that the evil has been lessened.

3. The sums collected by the sales officer must be put into the Treasury Department. This, indeed, has been the method of dealing with all income for many years past. The Government accounts have been happily free from mixing up receipts with expenditures.

[1] Whitthorne's Rep. 44 Cong. 1 Sess. No. 784.

CHAPTER XXIII.

STATE REVENUE FROM FUNDS.

1. The existence of funds.
2. The origin of many of them.
3. Permanent funds.
4. The supplementary school funds.
5. Sinking-funds.
6. Trust funds.

1. Many of the States have funds, the income from which is devoted to the payment of specific purposes. One of the best known of these is the school fund. They have been accumulated in various ways, by the sale of lands, direct appropriations, fines, and through other income accruing to the State.

2. Many of the funds, however, are nothing more than permanent or sessional appropriations under another name. Thus, in the accounts of many States appear general funds, which are simply general appropriations. An interest fund, for example, is nothing more than a permanent appropriation for paying interest, corresponding with the permanent appropriation of Congres for the same purpose. By providing that such a fund must be paid is another way of declaring that the State must pay whatever interest it may owe.

3. Permanent funds, which are sustained by securities of various kinds acquired by the sale of land and other property, are much fewer in number. The largest and most important of all is the school fund. Many States have such a fund. That of Connecticut was derived years ago from the sale of the Connecticut Western Reserve, the northeastern part of Ohio. The money is largely invested in land mortgages. The school fund of Texas, one of the largest of any State, is chiefly derived from the sale and lease of State lands. Likewise, in Wisconsin the fund comes from the same source, besides prop-

erty that escheats to the States, fines, payment for exemptions from military duty, and 5 per cent. on the net sale of State lands belonging to the United States. A few years ago Massachusetts determined to add $100,000 annually to her school fund until the amount reached $5,000,000. From an economic point of view, of course, nothing more was gained than would have been by appropriating, raising and paying a sum equivalent to the interest thus set apart from the general appropriations. If the $100,000 was an addition to the appropriations that otherwise would have been made, the people were taxed for it; if it was not, some other appropriation was reduced a similar amount; or, it might have been borrowed. If so, the operation consisted simply in creating a new debt to enlarge the school fund. The gain to the school system was the insuring of a larger permanent income.

4. In many of the State accounts a supplementary fund for education appears under different names. This is nothing more than an annual appropriation which is to be paid from the receipts of taxes. Thus this term, fund, so often used in State finance, rarely means a resource from which the State derives pecuniary assistance.

5. In this connection may be mentioned State sinking-funds, which consist of money derived from taxation or securities purchased with it, that are to to be devoted to the payment of debts due at a future time. Instead of buying these, it is often preferable to invest the money that might be thus applied in other securities that can be converted into money whenever it is needed to pay the matured obligations of the State.[1]

6. Lastly, the State may hold various trust funds, like those given by foreign insurance companies for the privilege of transacting business within a State.

[1]The theory of a sinking fund and the operation of American sinking funds are the subject of an article by Prof. E. A. Ross, 7 Pub. of Am. Economic Assn. 195; see also H. C. Adams' Public Debts.

CHAPTER XXIV.

STATE REVENUE FROM TAXATION.

1. Chaotic condition of state tax systems.
2. The subjects of taxation.
3. Difficulties in taxing real estate.
4. Consequences of the unequal assessments.
5. Difficulties in taxing personal property.
6. Difficulties in imposing taxes on occupations.
7. Inequality in the South Carolina license system.
8. Inequality everywhere.
9. Liquor licenses.
10. The taxation of collateral inheritances.
11. The tax falls chiefly on personal property.
12. Which otherwise evades taxation.
13. Justice of the tax.
14. Shall the tax be graduated?
15. Taxation of corporations.
16. Taxation of railroads.
17. Taxation of their real estate outside of road-bed.
18. Taxation of the evidences of corporate property.
19. The taxation of other corporation banks.
20. Effect of lower taxes on capital than on other kinds of property.
21. Double taxation.
22. Taxation of mortgages.
23. Desirability of taxing tangible property.
24. The fundamental basis of taxation reconsidered—ability.

1. Every one knows of the chaos that exists in all the States concerning taxation.[1] Even those that boast of leading in the race for better government have not advanced much in improving their modes of exacting contributions for the public support. One of the indispensable conditions of improvement is uniformity of action by all the States. They are so clearly related in many ways that no State can adopt and enforce a good system unless similar action is taken by others.[1a]

2. The oldest and most common subject of taxation is real estate. For many years it was the principal kind of property in this country. So long as it was, taxes could be assessed with some degree of equality and fairness. As wealth increased it assumed new forms, which the State endeavored to tax. Money, merchandise and other kinds of wealth were included. Afterward, corporations were organized and taxed. Not content with taxing property in their own jurisdiction, the States stretched their authority beyond, and endeavored to get more through the owner who was within their grasp. Licenses and fees from an early day were also imposed. And thus has developed the most extraordinary jumble, which has grown worse with the increase of wealth and of pressure on the taxing power to include everything within the net of the tax-gatherer. Wherein the State has chiefly failed to measure correctly the ability of the taxpayer to pay will now be briefly described. A brief summary of its failures will suffice, for they are familiar knowledge.

3. First, there is no uniformity in assessing the value of real estate. In one town or city it may be assessed at 50 per cent. of its value; in another, 60 per cent.; in another, at its full value. Still worse, in the same town or city lack of uniformity is still more glaring. Those who own most, and keenly watch their tax bills, may find ways for keeping their assessments at low figures; those possessing no influence, or who are opposed to the taxing authority, are assessed at much higher valuations. Politics, relationship, friendship, enmity, indifference, vigilance are a few of the many potencies that determine the action of assessors.

4. We need not stop to describe the consequences of disregarding proper rules in determining valuations. The farmer who is more heavily taxed than his competitor, if both are on the same plane in other respects, has an obvious disadvantage, the more exasperating because it is wrought by State action.

5. Second, is the failure to reach all kinds of personal property marked by law for taxation. It is easy to hide much from the tax-gatherer, especially money and other kinds of wealth that occupy a small space. In truth, only a very small amount of personal property that is liable to taxation is assessed. As Professor Seligman remarks, this defect "is so patent that it has become a mere byword throughout the land. The taxation of personal property is in inverse ratio to its quantity, the more it increases the less it pays. The reason is plain. So far as it is intangible, personal property escapes the scrutiny of the most vigilant assessor; so far as it is tangible, it is purposely exempted in its chief form, as stock in trade, in our commercial centres."[1]

6. Third, may be mentioned a series of difficulties in imposing taxes on occupations in the form of licenses or fees. Professor Seligman has clearly shown how they differ from other kinds of taxes. "A tax is levied as a part of a common burden; a fee is assessed as a payment for a special privilege. The basis of taxation is the ability or the faculty of the taxpayer; the basis of a fee is the special benefit accruing to the individual." Another distinction is, "a fee does not normally exceed the cost of the particular service to the individual;" a third distinction is in the service performed by the government in return. For a tax no special service is rendered; for a fee the government displays "some positive energy, as in furnishing a water supply," or permits the licensee to do something.

7. One of the radical objections to license taxes is the utter lack of any system in imposing them. In no case have all occupations been taxed, but only a few. Such a system is manifestly unequal and unjust. The new constitution of South Carolina provides for a graduated license on occupations and business by the Legislature. Disregarding the constitutional instruction, the Assembly has attempted to tax "artists, ambryotypists, photo-

graphists, etc.," at the rate of twenty-five cents for every thousand inhabitants of the place where they "do business;" and merchants who sell more than ten thousand dollars' worth of goods a year, twenty-five cents for every additional thousand sold. But lawyers and physicians must pay five dollars a year, regardless of their income, and every laundry woman fifty cents annually for continuing her business, be it small or smaller. Rarely has a license system attempted so much; and never, perhaps, has one disregarded so openly the plain requirements of the organic law.

8. At no time has any State ever adopted anything approaching a fair license system. A few occupations have been selected; the larger number have escaped. Is the State just in imposing licenses on doctors or lawyers and omitting barbers, or laborers, or any other class?

9. Liquor selling has been singled out by many nations for taxation for peculiar reasons. The business leads to consequences that are notoriously bad, and therefore it seems only just that liquor sellers should be obliged to contribute toward the expense of undoing the evils they entail on persons and society. Another reason for taxing them is to promote temperance, by increasing the price of liquors and thereby curtailing their use, and also by restricting the places for selling them. This legislation so often springs from the double purpose that it is not easy to determine when such taxes are wholly revenue.

10. The collateral inheritance tax is the latest addition to the American system of taxation, and is rapidly growing in popular favor.[3] The Treasurer of Massachusetts remarks in a recent report that the tax is a fair and just means of raising revenue, easily borne, and if properly assessed and collected would supply a large amount of the annual revenue required for the support of the Commonwealth.[4]

11. The tax falls principally on personal property, which, during the lifetime of the owner, largely escapes

taxation. Controller Roberts, of New York, remarks in his annual report for 1896, that the equalized taxable value of real estate in that State in 1870 was $1,532,720,907; in 1895 it had reached the sum of $3,908,853,377, an increase of more than 155 per cent. The equalized value of taxable personal property in 1870 was $434,280,278, and in 1895 $459,859,526, a gain of less than 6 per cent. The increase in value of personal property of late years in New York has been more rapid than that of real estate, while the amount of personal property owned by persons living there exceeds the amount of real estate. Yet as the Controller remarks, the above figures indicate an amazing growth in the amount of taxable real estate, while the increase in the amount of personal property reported for taxation hardly deserves mention.

12. The Controller then asks, "Where is all this personal property?" and answers, "It evades taxation." Neither the assessor nor the tax-gatherer gets a chance to tax it until the death of its owner. Then an administrator appears, appraisers are appointed, the strong boxes in the bank and safe deposit vaults are opened, and vast amounts of securities are brought to light.

13. The Controller again asks, "Why should not the State avail itself of this opportunity to impose a tax on such property, which, by law, is subject to taxation, though none has ever been collected?" Some writers assert that the course of the State would be wiser to forego all attempts to tax personal property during the life of the owner, and on his death levy an assessment large enough to make up for the previous years of exemption. To no one would the tax be a hardship. If this policy was adopted decedents would enjoy their fortunes during life, and their beneficiaries would simply pay a fee for the privilege of receiving estates created by no effort of their own.

14. Shall such a tax be graduated? Many favor this plan. Controller Roberts has submitted the following

plan of a graduated tax: Five per cent. on estates of $1,000,000 and less than $2,000,000; 10 per cent. on estates of $2,000,000 and less than $3,000,000; 15 per cent. on estates of $3,000,000 and over.[4a]

15. We shall now turn to corporations, which are the principal sources of State taxation in many States. These may be classified into transportation corporations, railways, canals and express companies; manufacturing corporations, mining corporations, banking corporations, and others that may be termed miscellaneous. They have been taxed in various ways; all of them have proved defective.

16. In dealing with railroad corporations one of the first questions is, Ought the tax on a line competing with another outside the State to be levied with reference to the tax imposed on its competitors, or not? If a higher tax is laid than is paid by its competitor, either this must be thrown on shippers and added to their tolls, or be deducted from the profits of shareholders. Another question relates to the mode of assessing them, Shall this be on their gross or on their net receipts? Without discussing these plans, we may add that the third and more general one is to require them to pay on their shares or capital. In ascertaining the value of the shares or capital of a corporation, perhaps the fairest method would be to assess its interest-bearing bonds at their par value, or less if not worth par, and to assess its stock at its average market value during the year, for the bonds and stock would form a correct valuation of the property. It may be asked, If the bonds are worth more than par, ought not this additional sum be added? We think not, for the reason that an excess does not denote that the property on which they are issued is worth more. If the bond of a railway company advances 10 per cent., the property is worth no more than before, nor is the profit any greater to the bondholder, consequently there is no reason why he should be taxed more heavily on a bond worth 110, and

paying 5 per cent. interest, than on a bond worth only 100 and bearing the same interest.

17. Perhaps the real estate, stations, repair shops, etc., should be appraised like other real estate in the place of their location, and deducted from the total amount. Then the property thus deducted should be taxed locally like other property.

18. A still worse evil is the taxing of the evidences or titles of corporate and other property after taxing the property itself. Double taxation is indefensible. Bonds and certificates of stock are only the titles to property, and there is no better reason for taxing these than the deed of a farm or any other certificate.

19. The taxing of other kinds of corporations does not present as grave difficulties. In taxing a bank, its shares or capital, we think, should be subject to taxation like that of a railway company, which is determined by its actual value, while its surplus and undivided profits are clearly reflected in the worth of its stock.

20. Another cause of constant complaining is the varying rates of taxation on different kinds of capital, and the lower rates in general on this than on other kinds of property. The farmers, especially, throughout the country, complain that they bear an undue share of the burden, and that corporations, which are better able to pay, escape with paying much less. The capitalist class compared with the agricultural class does not pay its fair share. This is one of the most widespread causes of disaffection toward government.

21. Another cause of complaining is the taxation of the same property, often a second, third, or even fourth time, by different methods. The familiar illustration is the taxing of the owner of a mortgage on the money he has loaned, while the mortgagor nevertheless is taxed for the full value of his land. This is double and wrongful taxation, for the mortgagor is really not the owner of

the entire land, but only of that part beyond the value of the mortgage. The lender is the real owner to the extent of the money loaned.[8]

22. It may be asked, Will not the lenders of money elude or escape taxation if this principle be allowed or admitted? The analysis of the case of the mortgage shows clearly enough that all owners of property somewhere must pay, and ought to pay, taxes on whatever they have. In this case, for example, the seller of the land gets his money for it, and so long as it remains in his possession he should be taxed thereon like the owner of any other property. Therefore it may be said that the money lent to the buyer by the subsequent mortgagor is in the possession of the person to whom the land was sold. Suppose he has disposed of the money, what then? Suppose he has invested it in another mortgage? Then the person to whom the money was paid has possession of it, and should be taxed. In short, the money is somewhere, in the form of a deposit in a bank or in the keeping of some person. Of course, the larger portion of the money of the country is in the banks in the form of deposits.

23. There is no danger, then, in theory, that any one will escape his due share of taxation so long as actual tangible property is taxed, for every bond and every share of stock is only the certificate or deed to property existing somewhere. If actual property is taxed, including money, then every kind of actual property is swept within the domain of taxation. When this is done the taxing power should go no further in trying to tax merely the certificates or evidences or rights to property. Wherever this is attempted, double taxation is the result, which works inequalities and the gravest injustice.

24. In closing this chapter, let us revert to the questions, What is the proper ground of taxation? Ought every one to pay, and how much? We have sought to show that taxes are demanded for public services, that as all are benefited by them, all ought to pay them; that

in consequence of the *inability* of all to pay, they must be paid by those who *can*. Systems of taxation, therefore, are the methods of measuring the ability of persons to pay, and of collecting the amounts after this process has been completed. As measures of ability to pay, can anything be imagined more indicative of a low order of government? Here and there is a dim approach to a more equitable method of determining the ability of persons, but in general practice what we see is an attempt by the State to get a revenue in whatever way it can, and by the taxpayer to escape with paying as little as possible. The present systems furnish no adequate or proper measures whatever for determining the ability of taxpayers, and the very highest duty of government at the present time is to furnish a better system.[6]

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[1]The General Property Tax in California by C. C. Plehn, 2 Economic Studies, No. 3, is a very instructive monograph. The History of New York Property Tax, by J. C. Schwab, 5 Am. Economic Assn., contains an extensive bibliography.

[1a]Numerous reports have been made by State commissions for improving the State systems. One of the latest and by far the most elaborate and thorough is the Massachusetts Report of 1897. For a lengthy review of it, see article by A. C. Miller, 6 Jour. of Polit. Econ., 224. An instructive comparison of taxation between Pennsylvania and Philadelphia and Illinois and Chicago is made by J. R. Commons in 3 Jour. of Polit. Econ., 434.

For a good article on Excessive Taxation, see one by Franklin Smith, Popular Science Monthly, April, 1900, p. 645, and reports of J. H. Roberts, Controller of N. Y., 1894—1899.

[2]Essays in Taxation 27. See account of The Ohio Tax Inquisitor Law by T. N. Carver, 3 Economic Studies, No. 3.

[3]See The Inheritance Tax by Max West, 8 Polit. Science, Q., 426. It contains references to many works. Annual Reports of Controller Roberts, of New York, for 1895 and 1896. For recent Inheritance Tax Statutes and Decisions see 6 Jour. Polit. Econ., 437.

[4]Annual Report 1894. 14. Tennessee was the first state in the Union to levy an inheritance tax. Max West, The Inheritance Tax, 62

[4a]In New York the rate of inheritance tax ranges from 1 to 5 per cent. This is a much lower rate than is imposed in other countries, where this method of taxation has long been established. The following are the rates in other countries:

	Per cent.
Great Britain	from 1 to 10
France	from 1.25 to 11.25
Germany	from 1 to 10
Austria	from 1 to 9.5
Italy	from 1.36 to 13
Russia	from 1 to 8
Holland	from 1 to 10
Spain	from 1 to 10
Canada (Ontario, Nova Scotia and Quebec)	from 2.5 to 10
Switzerland	from 5 to 20
Victoria (Australia)	from 2 to 10
Belgium	from 1 to 12.8

[5]Exposition of the Double Taxation of Property in Mass., by G. G. Crocker.

[6]For titles to works on local and State taxation see No. 1, Municipal Affairs, p. 126.

CHAPTER XXV.

THE CONFLICT BETWEEN THE STATE AND LOCAL GOVERNMENTS IN TAXATION.

1. Conflict between the state and municipalities concerning subjects of taxation.
2. Should property be taxed at the same rate by the state and municipalities?
3. One way to solve the question is for the counties to collect all the taxes and pay over a portion to support the state.
4. No state has attempted to do this.
5. To what extent ought corporations be taxed for state purposes?
6. Exemption of manufacturers.
7. Objections to exempting them.
8. If they have been exempted the state should act justly in taxing them.
9. License taxes.
10. The state can collect some taxes more effectively than municipalities.
11. The practicability of taxing by state and municipality the same thing.
12. Objections answered.
13. Effect of different rates of taxation in different places on the same kind of property.

1. One of the gravest difficulties in taxation is to ascertain the rightful boundary between State and local action.[1] If several railroads run through a county, it is a strong believer that railroads should be subject to local taxation; in a county not thus blessed, the belief is equally strong in the State taxation of railroads, and, as a proper corollary, that the State should pay for many expenditures, the maintenance of justice, schools and the like.

2. There is another question, hardly less difficult. Admitting that railroads and other corporations for vari-

ous reasons should be taxed by the State, it is maintained by the owners of other property that corporations should be taxed in a similar manner and at a similar rate; and if the income received by the State through such a system of taxation is more than sufficient to pay its expenditures, the excess should be divided among the counties. A farmer often contends against the gross unfairness of the tax on his farm, at a rate two or three times higher than that of an adjacent railway. These questions reveal at once grave difficulties in determining the correct boundaries between State and municipal taxation.

3. One way to solve them would be for counties to collect all the taxes of every kind, and pay enough into the treasury of their State to meet its expenditures. What would be the effect of such a policy? The first effect would be to reduce State expenditure. Many of its functions would be suspended. As the counties would then be interested in keeping the largest amount for local application, they would strongly favor the policy of restricting the functions of the State to narrower limits. But now, as corporations pay a large part of the expense, the tendency is to extend the functions of the State. Counties do not much care what the State does with its revenue, so long as they cannot have any portion of it.

4. Thus far, no State has ever attempted to renounce all taxation to the counties and live by drawing from them; and if this were done a difficulty of the gravest character would follow. Each county would strive to be smart and put an undue share of the burden on other counties by undervaluing its property. In other words, the same principle that operates among taxpayers to relieve themselves from their lawful burden by making improper returns would operate with tenfold force among the counties to shift their lawful burden of maintaining the State. This plan, then, may be dismissed without further consideration.

5. Falling back on the other, as the State must derive

an income by taxation, assessed and collected by its own officers, how much shall it collect, from what sources, and what relation shall the rate of taxation bear to other property thus left to the taxation of municipalities? It is generally thought that railroads should be assessed and taxed by the State, although all are not agreed that it should retain the entire amount paid by them. But the moment railroads are passed the difficulty thickens. Ought a bank or manufacturing company to be taxed by the State or by the locality in which it exists and does business? Are they not local property, like the land of farmers? They are fixtures; they are a part of the municipality. The only argument in favor of State taxation is that it is more uniform. But is this sufficient to warrant the withdrawal of manufacturing companies from local taxation? Again, should the rate of the tax be the same as on the capital of a railroad corporation? At present, the capital in different kinds of corporations often pays different taxes, a manifest injustice.

6. Again, in some States the capital of a manufacturing corporation is exempted from taxation, and only their real estate is liable to a tax in the county or township where it may be located. Is this just to other taxpayers to withdraw the capital of one class of corporations from taxation? If a city or town is willing to exempt a corporation from taxation for several years as an inducement to locate or to extend its business in that particular locality, that may be a wise policy, as all living there expect to gain something from its creation or extension, but such action is very different from that of a State exemption of a large amount of capital from taxation.

7. For it should be remembered that other persons and capital must share the expenditures which otherwise would be borne by those exempted. By exempting one class a larger burden is imposed on others. Does the gain to the State or to the people in numbers or in the value of their land or in the cheaper goods furnished to con-

sumers justify the exemption of manufacturers from taxation? In truth, do not advantages flow from the expenditure of capital of every kind? If a railway is built, do not the lands through which it passes increase in value? Are not goods carried at cheaper rates than they were formerly? Do not consumers ultimately derive a benefit? Are not more persons employed? Are not farmers benefited by the increased consumption of their products? In short, are not many advantages reaped? And if so, are not the reasons for exempting them from taxation just as strong as those for exempting manufacturers?

8. It is true that if a State has embarked on such a policy it may not be justified in imposing a tax on them; but it certainly would be justified in carrying the exemption no further, and in restricting and withdrawing it so far as this could be done without inflicting any injustice on those who have acted on the assumption that the State would follow this policy permanently.

9. Another tax collected by the State is for licenses. It may be objected that such a tax ought to be collected locally by the towns and other places where the person or company licensed lives, and the same remark may be made concerning the taxation of personal property, notes, bonds, stocks, etc., as well as mortgages.

10. One of the reasons given by the State for including within its sweep so many objects is, it can collect taxes more effectively than the municipalities. Doubtless there is some truth in this assertion. If a tax was imposed by a small locality in which a bank, insurance company or manufacturing company was situated, it would not be so readily paid as a tax levied by a more powerful political organization like the State. The same remark may be applied to a mining company.

11. Suppose the State imposed a small tax, a franchise tax, perhaps, based on the capital of all corporations. Suppose, further, that municipalities were permitted to tax them on the value of their property, but re-

quiring them to deduct the franchise. Would not this be fairer than the present way of dealing with them?

12. It may be remarked, as an objection to dividing taxation between the State and municipalities, that there would be varying local conditions which would work unevenly on business. A bank in one city might be taxed higher than a bank in another; a railroad might be subject to a higher local tax in one county than in another. This is an objection; but the answer is that just such inequalities now exist in taxing real estate and personal property. Each township and county collects as much as is needful for local purposes, regardless of the rates charged by surrounding townships or counties. This inequality is one of the hardships of doing business, and cannot be escaped. It is understood by business men; they take the risk; and it is as just to apply this principle to one kind of property as to another.

13. This principle has a wider application. In different municipalities rates of taxation differ greatly on competing property, and the municipalities that are the most economically managed and in which the taxes are the lowest have an obvious advantage over other municipalities in which the rates are much higher. Why does not a State or municipality see that prosperity is insured by maintaining the lowest possible rate of taxation, for by so doing municipalities tempt the creation of new enterprises and the extension of old ones. One of the best possible reasons for extending manufactures in any place is the intelligent, economical and honest administration of the local government. This is an argument of the highest worth, one which some municipalities are wise enough to appreciate, and the time is not far distant when others will realize its significance.

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[1]See articles by Max West on City and County Taxes in 14 Political Science Q., Nos. 2 and 3, and Taxation in American States and Cities by R. T. Ely.

CHAPTER XXVI.

STATE AND NATIONAL INCOME TAXATION.

1. Income as a measure of ability.
2. The superiority and defects of this measure.
3. Objections by the small taxpayer.
4. Answer to the objection that it is a tax on thrift.
5. Its inquisitorial nature.
6. The real objection is because one's ability to pay can be more accurately ascertained.
7. Review of federal experience.
8. The same subject.
9. The tax should be levied on all income.
10. The South Carolina plan violates this principle.
11. A tax on income and property in effect may be the same.
12. Yet an income tax can be more efficiently assessed and collected than a property tax.
13. How objections to public knowledge of one's income may be overcome.
14. The state should begin with the income of corporations.
15. What they should be required to state concerning the income of their members.
16. Why corporations should not object to paying an income tax.
17. Different methods of paying the tax on corporate income.
18. Residential effect on income taxpayers.
19. Division of the income of railways among different states.
20. The state should assist in ascertaining the income of its citizens.
21. The aggregate income would form the proper basis of state and local taxation.
22. And result in the reduction of state expenditures.
23. And lessen the difficulties of ascertaining a proper tax fund.
24. The division of incomes between states.
25. The graduation of the tax.
26. Federal taxation of income.
27. How the system worked.

28. The income tax law of 1894.
29. Is the question of the unconstitutionality of law definitively settled?
30. How the national government could aid state governments in perfecting the system.
31. The combination of taxes on income and on property.

1. If ability to pay is the proper basis of taxation, a person's income is a much fairer measure of his ability than the property assessed for taxation by the present crude methods. It may indeed be shown that in applying the income measure to taxpayers they will not always contribute in the most equitable manner, and that practical difficulties will attend the collection of the sums demanded. But the objections are not so numerous or weighty as those attending existing methods.

2. In many respects an income tax is the fairest that can be laid. It is a tax on ability; those having most are required to pay most; and the best opinion is setting more and more strongly toward the adoption of such a system.[1] Yet a glance into it discloses many weak places. Suppose, for example, a person has an income just sufficient by the practice of wise economy to pay his ordinary expenses. The taxing even of a small portion of this to pay an income tax changes his condition, and he is crippled to live with the same degree of comfort as he did before. In words, his sacrifice, though the payment be small, is disproportionate to the sacrifice of another person who pays a tax perhaps ten times greater, but on a proportionately greater income. In the second case the taxpayer has more than enough income left to pay all his expenditures; in the other case a deduction means something taken from the taxpayer's table or from his back.

3. The small taxpayer may, however, make the same objection to the present system of taxation. His ability to pay is much less than that of his rich neighbor. An assessment of ten dollars on his real estate may be a far more serious thing to him than an assessment of a hun-

dred dollars on the real estate of his neighbor worth ten times as much. The evident inability of every taxpayer to bear even a small proportionate burden is one of the strongest arguments for graduated taxation. And it applies just as strongly to taxes assessed on real estate and other property as to taxes assessed on income.

4. It is said that a tax on income is a tax on thrift. This is one of the most common objections, but may not the same thing be said of any tax? After paying it the person has just so much less; and the inducement to earn more perhaps is thereby lessened. But not always. A tax on thrift does not always destroy a man's ambition. It depends rather on the amount that is extracted from him. History is full of examples in which so much was taken from the thrifty that they lost all heart to accumulate more. On the other hand, the effect of a tax, if not too heavy, may be to quicken the energy of the taxpayer in order to make up his loss. Whether a tax operates in one way or another depends in most cases on the amount taken from the taxpayer.

5. Again, it is said that an income tax system is too inquisitorial. In truth, it is not a whit more so than existing systems where they are thoroughly executed. These call for a full disclosure of one's property and its value.

6. This objection disguises the real one, that it would be more difficult in many cases to evade inquiry into a person's income than it is to conceal personal property and make wrong returns of its valuation. The present laws are indeed less inquisitorial, because they can be easily set at naught and property be covered up; but if they were rigidly and effectually enforced, opposition to taxing personal property would be just as fierce as opposition to an income tax. The new devices for escaping the payment of the collateral inheritance tax are fresh illustrations of the unwillingness of the owners of personal property to contribute anything to support the state.

7. Will the contention be questioned that income taxes could be more fairly and effectively ascertained and collected than are the existing taxes? An objector appeals to the ten years of federal experience in collecting an income tax between 1861 and '71. It is true that the opposition was strong, the methods of ascertaining personal income were crude, and evasions were frequent. But it must be remembered that the system was new; the administrators of the law imperfectly understood their duties, the government regarded the tax as temporary and did not seriously undertake to perfect the details of its collection. Had the system been permanently established, greater efforts would have been made to improve it.

8. The throwing open of the returns of income receivers, "in order," as the Commissioner of Internal Revenue said, "that the amplest opportunity may be given for the detection of any fraudulent returns that may have been made," was the origin of a new series of frauds, as curious as they were unexpected. Some persons paid taxes on larger incomes than they received, expecting through their publication, to strengthen their credit, others, who had perhaps met with heavy losses and feared the consequences to their credit if they gave correct returns, made false statements to cover up their real condition. But they might have pursued the same course before, had they desired, and paid taxes on imaginary personal property.

9. An income tax should be levied on every income above a very small figure. Taxation which begins with persons who have an income above a considerable amount is class taxation and is highly objectionable. All should return their income, and then a similar deduction should be made in all cases for living. Thus equality would be preserved; but no class should be compelled to bear the burdens of all. The tendency of a government imposing a class-tax is bad, as the non-paying class favor the increasing of expenditure, for the

obvious reason that, as others must pay the bills, those who do not pay will lose nothing and may be gainers. The people in many parts of the country are quite familiar with this kind of experience. In New England, for example, highways are authorized at meetings of town freeholders. Again and again have the majority, who were not obliged to pay the bills, authorized the building of highways to furnish work for themselves and their friends. Had they been required to pay for them, their action would have been otherwise.

10. The income tax system proposed in South Carolina is very faulty, because no tax is to be imposed on incomes below twelve hundred dollars. If all were required to pay something, they would have more respect for the government. The tax might be graduated, especially on smaller incomes, but none should escape whose incomes exceed a small figure.

11. From one point of view a tax on income and a tax on property from which a person's income is derived is the same thing. A tax on income is regarded as a direct tax; yet a tax on property is paid, after all, from profits, from rents or interest, which is income. Is not the tax therefore in both cases drawn from the same source? And this is true with respect to the larger portion of all property that is taxed. Is the question, then, unimportant whether the tax is levied on income itself or on property from which income is derived? Suppose a person has an income of $5000 on which a ten per cent. tax is laid; the tax will be $500. Suppose another man is taxed one-half of one per cent. on a piece of real estate worth $100,000, from which he derives a rent of $5000. What is the difference to them, whether these taxes are laid on their income or on their property? The amount taken from their profit or income is just the same. Both are required to make the same sacrifice.

12. The question, though, is exceedingly important from another point of view. As we have seen, varying

rates are assessed on different kinds of property; the valuation of visible property is unequally assessed; double taxation is often imposed; the incidence is grossly unequal; enormous quantities wholly escape taxation. The first three difficulties would be unknown under an income tax system. The failure of the state to ascertain one's income would correspond with its failure to find out all of a taxpayer's property, but it would not be so great.

13. Another objection to the income tax system is the dislike of many to have the public know the amount of their income, and the fear that such knowledge could not be kept concealed so easily as by the present system. It will be admitted that through the failure of those who are required to execute the laws, the public does not derive much certain information from the tax records of one's wealth, but if the laws were enforced the records would show quite as much under the one system as the other. A person who was a member of a corporation, partnership or other association (and most persons are who have much property) might divide his income and return the amount to the taxing authority in different forms. By so doing, one of the grave objections to the system might be lessened. He should be permitted to return the whole amount from every source, or to direct the associations of which he was a member to include his income in theirs.

14. In taxing income the state should begin with corporations. There would be less objection to taxing their income, because they are public bodies, and their accounts, earnings, etc., are of a public nature. The dividends they make and the amounts carried to surplus disclose fully their earnings. To them, therefore, the inquisitorial feature would have no terrors. Very likely they might object to the amount of taxes imposed, but that is another matter. Partnerships, also, both limited and private, and all other kinds of associations should be required to make a return of their income.

15. All corporations and associations ought to be required to furnish to the taxing authorities proper data concerning their membership and the amount of stock held by each member. By this means the authorities could easily verify the exceptions made by individuals in their returns of income held in such companies. Corporations should at least be required to answer any inquiries of this nature that might be made.

16. Perhaps some corporations would object to an income tax, fearing a higher rate than that now imposed. They certainly would not object, in many cases at least, on the ground of disclosing their earnings more fully, for these are now well known, and must be known to retain public confidence. It is true that they have often escaped paying their full share, but as expenditures increase, taxes are likely to fall more and more on corporations. Nothing is more common in state legislation, whenever public expenditures are increased, than to raise the tax on corporations, as they are largely contributing to state support. There is another reason which, at the present time, is weighty with many. They think that corporations have not done their full share. In the coming years therefore corporations may look forward with great certainty to the oncoming socialistic juggernaut. This huge machine, while professing to love justice, is administering it in such a rude fashion that the corporations will not long escape an increase of their tax burden. Since this is so, they ought to prepare for what is coming, partly by acquiescing in the sytem for themselves, and partly by insisting on its application to individuals.

17. Experience, however, might show that the taxing power should deal with corporations in a very different manner. The plan might prove to be the wiser not to tax corporations at all except on the undivided portion of their net income, and to require them to report the names of the persons among whom the remainder of their income was divided, or they might be required to pay taxes

on this portion of their income for them. Besides these methods of taxing corporate income there may be others, and which might prove to be best can be determined only by trial.

18. Unquestionably, one of the first consequences of introducing an income tax would be to start an extensive migration among the larger income taxpayers. But then, a similar movement would happen if the laws relating to the taxation of personal property were effectively enforced. Whether the tax on corporate income should be paid by corporations themselves, or by the receivers of it, or by corporations for the latter, might turn largely on the question, What would be the residential effect of the different methods of paying it? The answer to this question would be of the first magnitude to many municipalities.

19. A somewhat difficult question arises in taxing the income of railway companies doing business in several states. Should it not be divided among them in proportion to the amount earned in each state? This might be difficult, but would not be impossible. Does not justice demand that such a division be made?

20. The state should assist in ascertaining the income of every citizen. The local boards employed in assessing and collecting taxes ought to have such supervision as would insure an intelligent and fair enforcement of the laws. Furthermore, doubtless many questions would arise concerning what should be included and excluded as income; and state authority as far as possible should decide them. Such officials, further removed from those directly engaged in ascertaining the incomes of individuals, would act with more independence and probably possess greater experience, and render more satisfactory decisions.

21. When the incomes of all individuals and corporations were ascertained, the aggregate amount would form a proper basis for taxation. Then the state would take a share for paying its expenditures from the income of

every member, and the municipalities would take another share for local needs from the income members living within their respective limits.

22. One of the great advantages arising from this system would be the immediate reversal of the policy of municipalities in extending the functions of the state. They would seek to lessen them, to reduce state expenditures, that more income might be left for taxation and expenditure for local purposes.

23. Another advantage would be the diminished difficulties in ascertaining what should be included as income compared with the difficulties in ascertaining the value of real estate. In determining the value of this even the best informed judgment to some extent is a guess. In determining what should be regarded as income all guesses would disappear. There would be indeed many difficulties in making out returns, in determining what should be considered as income, deductions for losses and the like, but these questions would not receive mere guesses for answers, nor expose those who decided them to the influences of interest or sentiment as in valuing real estate.

24. Two questions may be left open for future consideration. One of these relates to the division of incomes accruing from property outside the state. We have indicated how the income of a railroad company ought to be divided; and one may ask, if this principle is applied to them, ought it not to be extended to other property, whether owned by other associations or individuals? If, for example, a manufacturing company is doing business in New York, Pennsylvania and Ohio, and getting an income partly in all of these states, ought it not to be divided among them all? Much may be said in favor of apportioning it among the states in which it was earned. If all the states adopted an income tax system and each state undertook to return to other states the amount of income of citizens and corporations acquired by them within its limits, then indeed justice would require that all should

do the same. But there are some practical difficulties in the way. It may be too much to expect all the states to do this, and if such action were not reciprocal, and each tried to get as much as possible and give nothing, this system would work rank injustice.

25. Finally, should incomes be graduated? This is an old question, and a reference to some of the literature on the subject will suffice. Unquestionably the smaller incomes ought not to be taxed at the same rate as the larger ones.[2]

26. In 1861 the national government imposed a tax of three per cent. on all incomes exceeding $800. Three years later the law was changed and the rate established was 5 per cent. on incomes over $600 and not exceeding $5000; 7½ per cent. on incomes between $5000 and $10,000, and 10 per cent. on all incomes above $10,000. Some changes were made afterward, but the system was temporary, continuing only ten years.

27. In the administration of the system complaints were frequent, but it may be truthfully said that, as a whole, the system was fairly successful. Doubtless many escaped paying their full share; there were errors in the methods of calculating income, but when we look back on those times, now twenty-five years past, the system worked quite as well as could have been expected.[3]

28. As the Supreme Court of the United States has decided that a federal income tax is unconstitutional, perhaps it is not worth while to consider the subject further. It may be remarked, however, concerning the expediency of imposing such a tax, that the most thoughtful writers disagree. Such a tax commends itself strongly to the people generally because they think it is another way to make the rich pay the public bills. One of the most vicious things about the last attempt in 1894 to impose such a tax was the exemption of all incomes below $4000. By this exemption the tax was to be levied simply on a class, and a small one, compared with the entire number of

people. The law ought to have been defeated on that ground, if on no other.

29. A federal income tax can not be imposed until the constitution is amended or the Supreme Court entertains a different view concerning its constitutionality. As the court was so equally divided, it can hardly be said that the question concerning its constitutionality is clearly settled. That tribunal has changed its opinion on several important questions, and the members are so equally divided that there is no reason especially for regarding their decision as beyond change.

30. However that may be, if a federal income tax were ever imposed, one of the enormous gains would be in the laying of a solid foundation for similar taxation by the states. Indeed, the national and state governments could co-operate most effectively to the same end. As remarked at the outset of this chapter, one of the most serious difficulties attending any system of state taxation is the varying systems in other states. Each state seems to be bent on levying all the taxes it can on the property within its reach, and on property beyond, when the owner happens to reside within its jurisdiction. These unhappy conflicts would speedily cease were the federal and state governments to co-operate in establishing and maintaining an income system of taxation. The advantages that would accrue from such national and state co-operation are too obvious to require explanation.

31. Difficulties, numerous and grave, surround the taxation of income, the escape of persons owning unimproved property and the like, but if we keep in mind ability as the proper basis of taxation, these difficulties shrink into smaller size than those which surround other systems of taxation. It is sometimes urged that an income tax is desirable as supplementary to a tax on real estate; but we think the reasons are far stronger, if both systems ought to be used, for making the taxation of income the principal one and the taxation of real estate sup-

plementary. Possibly an income tax supplemented by another taxing the unearned increment of property would yield a sufficient revenue to sustain the public servic.

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[1]The tendency of writers is toward income taxation. See Prof. Arthur Hadley's Economics, Ch. 14, on Government Revenue; Seligman's Essays on Taxation; also his article on Colonial and State Income Taxes, 10 Polit. Science, Q. 221; J. R. Elliott, American Farms, Their Condition and Future, 164. G. Gunton favors surplus income taxation, Primer of Social Economies, 362; F. S. Hoffman, The Sphere of the State, Ch. 7, The State and Taxation, 112; J. Bascom, Social Theory, p. 436. Among those who oppose income taxation of any kind are T. G. Shearman, Natural Taxation, 30-32, 41-45; D. A. Wells, Who Pays Your Taxes, 48. Bolton Hall, Id., ch. 8. p. 7.

For other articles, see Prof. Dunbar's article, J. of Economics, 1894, p. 26. A. C. Miller's National Finance and the Income Tax, 3 Jour, of Polit. Econ. 255.

[2]See Ann. Rep. of N. Y. Controller, 1896, xviii.

[3]F. C. Howe, in his work on Taxation in the United States, under the Internal Revenue System, says: "Unquestionably, the tax was exposed to widespread evasion, especially in the large cities. Such complete confidence was reposed in the individual that evasion was an easy matter; and the instructions of the commissioner, early in 1863, that the returns should be open for inspection only to officers of the revenues, simply facilitated it. For writers who favor federal income taxation, see E. R. A. Seligman, Is the Income Tax Constitutional and Just, 19 Forum 48; F. C. Howe, Federal Revenues and Income Tax, 4 Annals of Am. Acad. 557; U. S. Hall, Reasons in its Favor, 17 Forum 1; E. B. Whitney, Political Dangers of the Income Tax Decisions by the U. S. Sup. Ct. 19 Forum 521; E. R. A. Seligman, The Income Tax, 9 Polit. Science Q. 610.

For writers who oppose federal income taxation, see D. A. Wells, An Income Tax—Is It Desirable? 17 Forum 1; G. F. Edmunds, Salutary Results of the Income Tax Decision, 19 Forum 513; The Proposed Income Tax, 57 Nation 404; The Graver Evils of the Income Tax, 58 Nation 24; Beauties of the Income Tax Laws, 58 Nation, 133. See Dunbar's Art. 9 Quar. Jour. of Economics, 26.

CHAPTER XXVII.

MONEY AND COINAGE.

1. Money defined.
2. The chief requisite of a money-measure.
3. The need of a general medium of exchange.
4. Money is a go-between; a means, not an end.
5. Importance of money in discharging future obligations.
6. Prices not affected by money under ordinary conditions.
7. Less money is needed than formerly, because it circulates more rapidly.
8. Money circulates more rapidly in some places than in others.
9. The effect is the same as an additional supply.
10. Banks are the most effective agencies for circulating money.
11. The use of credit lessens the need of money.
12. The use of economizing expedients in production.
13. Their use in making payments.
14. The use of bills of exchange in paying for merchandise.
15. Same subject.
16. By the use of such bills commodities are exchanged.
17. This is the chief mode of exchanging commodities between leading nations.
18. Payment of the checks given for the bills above mentioned.
19. They are paid by exchanging them.
20. As effectively as by paying money, and thus lessen the use for money.
21. The use of credit lessens the demand for money.
22. It is a measure of a superior civilization.
23. Money affects prices when its value is unstable.
24. Also when credit is withdrawn and the demand for money is suddenly and greatly increased.
25. But does not affect prices under other conditions.
26. Prices may be indirectly affected by an increase of credit or supply of money.
27. Same subject.

28. Recent movements in gold have not affected prices.
29. A large increase in the gold supply will not affect prices.
30. Ought the purchasing power of money to be lessened?
31. Debtors have not suffered to the extent imagined.
32. Should they ever be relieved by diminishing the value of money?
33. A better remedy.
34. Causes tending to diminish the value of gold.
35. All kinds of coined metal are money.
36. Coined silver.
37. Kinds of notes issued by the government.
38. Legal-tender notes.
39. Silver certificates.
40. Silver treasury notes.
41. National bank-notes.
42. Gold certificates.
43. The notes described serve in most respects as money.
44. Importance of understanding their real nature.
45. Nature of the metallic money in 1789.
46. Gold and silver were then in circulation.
47. Standard of the weight and fineness then adopted.
48. Adoption of two standards.
49. Their legal relation.
50. Their legal relation or value corresponded with their market value.
51. But varied afterward.
52. Exportation of coins forbidden. Reduction of gold in the coin.
53. Amount of the reduction.
54. The reduction was too great.
55. Purchase of bullion for silver coinage.
56. Revision of the coinage laws in 1870.
57. History of the passage of the revised law.
58. The discontinuing of the coinage of the silver dollar excited no attention.
59. Revival of the coinage of it.
60. Passage of the Sherman Act.
61. The government's option to pay gold or silver. Danger of paying silver.
62. The silver certificates are a mixed form of currency.
63. Repeal of the law authorizing the purchase of silver.
64. Opposition to its repeal.
65. Profit on coined silver.
66. Present market value of the coined silver.
67. Seigniorage.
68. Ought seigniorage to be charged?

69. Same subject.
70. Same subject.
71. Payment for gold deposited for coinage.
72. Summary of all kinds of money and substitutes.
73. Legal-tender qualities of silver coins.
74. And of the legal tender notes.
75. Silver certificates.
76. Treasury notes.
77. National bank-notes.
78. History of issuing legal-tender notes and providing for their redemption.
79. The measure adopted for resuming specie payments.

1. As this topic is closely related to finance, we shall endeavor to explain very briefly the nature and functions of money, beginning with a definition of the term. The most common of all definitions is, money is a measure of value and a medium of exchange. Each of these phrases may be briefly explained.

2. Every one knows what is meant by a measure of weight, a means or instrument for ascertaining a definite quantity. When the early traders in Pennsylvania first bought furs of the Indians no measure of value was used; for their furs the Indians received no gold or silver, but blankets, knives and various articles. After a time some silver money pieces were given in payment, but as these, though having the same name, differed in value, the Indians soon learned to dislike the white man's money, and wanted none of it. They were not sure when receiving silver pieces, how much they could afterwards get for them. A white man is as unwilling as an Indian to receive any kind of money possessing a varying value, whatever may be the causes of variation. There was nothing peculiar in the Indian's conduct. Certainty of value is an essential of good money.

3. Money is also a medium of exchange. Exchanges are made between persons to supply their wants. A is a chairmaker and wants shoes. B is a shoemaker and wants chairs. Each exchanges his products for those of the other, and the wants of both are satisfied. If A could al-

ways exchange the things he did not need for the things he needed, with others who wanted them and could give A what he wanted in return, there would be much less use for money. In most cases, however, persons cannot thus exchange directly. What, then, can they do? If there is anything which all desire, it is practicable for persons to exchange what they do not need, the hatter, his hats for example, for the thing desired by all, and afterwards exchange this for the chairs he does want. Anything that all desire may serve as a medium; and many things have been used as money by different nations. It should be remembered that the hatter when exchanging his hats for money desired chairs quite as much as he did when he exchanged his hats directly for them; and he would never make two exchanges, first his hats for money and afterwards this for chairs, if he could get them by direct exchange. Usually, he cannot exchange hats for chairs directly, and so the money taken in the first exchange—the medium that he intends to use for getting chairs—is in truth a great economizer of his time, as he can readily exchange this for them. Another fact is clearly seen in this transaction, the hats possess only a limited purchasing power; in other words, not every one wants them and is willing to give money for them; while money possesses a general purchasing power, almost every one is willing to take it in exchange for other things. So the millions of mankind are eagerly trying to get money, not to retain long, but to use as a means for getting the things they need to eat, wear or keep.

4. Money, therefore, is simply a go-between to get other things. No one wants it as an end, as a permanent possession. The bloated bondholder, of whom so much has been said, has very little money, for his bonds are not money, but only the titles, the certificates of ownership of lands, houses, railroads, ships or other things of which he is a part owner. These are the things he is trying to acquire. No one tries so hard to get rid of his money by ex-

changing it for something else. Many of the richest men study in advance of receiving their income how to invest it; in other words, how to exchange it for bonds, stocks and other kinds of wealth, as quickly as possible.

5. The need of having something possessing certainty of value and desired by all becomes still greater whenever payments or exchanges are not immediately completed. Future payments might indeed be made in some specific thing, wheat, iron, cotton and the like, but the difficulties in the way of making them are apparent. So long as something exists having a stable value, agreements may be safely made that are to be fulfilled months or years afterward, by the payment of the thing specified, and when the time comes for paying, either to deliver that or some other thing of an equivalent value which the creditor is willing to take. If nothing existed that could be readily exchanged possessing an essentially fixed value the entire world of exchange would be a scene of uncertainty and confusion. Persons would be afraid to sell or lend, not knowing how much would be returned; others would be afraid to buy or borrow, for they would not know how much they ought or would be required to pay.

6. Prices are the values of things expressed in money. These are determined by the most familiar of all economic principles, supply and demand and cost of production. The first principle determines their momentary value; the other their more remote one. If there were no money the value of commodities would exist and fluctuate as they now do. Money is a price-making factor only when unusual conditions exist that will soon be explained. Serving as a mere go-between, so long as there is enough for this purpose, it is a mere neutral ingredient in the process of exchanging one thing for another. People have the same wants now as they had before the invention and use of money, and they would have the same wants if it disappeared. The price of wheat is much higher than it was a few months ago, but no one contends that the rise is

caused by any monetary change. The world's quantity and quality of money during the corresponding period has not been much affected by any event. Wheat was wanted by just as many people last year as want it now, but the present supply is smaller. Consequently, their eagerness to buy is shown by their willingness to pay a higher price.

7. Less money is needed than formerly in making exchanges, compared with the total of them, for two reasons; first, because it circulates more rapidly, and, secondly, because substitutes play such an important part. If, with $100 in the possession of the people in village A, twice as many payments are made among them in the same space of time as $200 in village B, the $100 in village A is twice as effective, accomplishes twice as much work as the $200 among the people in the other.

8. It is unquestionably true that money circulates with far more rapidity in the City of New York than among the sparsely settled districts of the frontier. Consequently, the people in New York in transacting a similar amount of business would not require as much money as the same number of people on the frontier. This must be evident without further explanation.

9. The effect, therefore, of circulating money more rapidly is the same as an increased supply. If money circulating in New York, equal in amount to that circulating in Arizona, does twice as much work, it is just as effective as twice the amount would be circulating at Arizona speed.

10. Of all the agencies that have the effect of quickening the circulation of money, banks are the most effective. A bank dislikes to keep any more money around than prudence requires. Its profits are made by lending money not by keeping it. Of course, enough must be kept to answer all demands; but every wideawake banker, after making due provision of this kind, desires to lend, if possible, the remainder. A bank does not keep money in its

vaults, as an individual keeps money in his pockets, day after day, before making any use of it. A working man receives his months' wages, and during the month he continues to part with his money; and it may be that at the end of thirty days all is gone; but a bank usually keeps money no such length of time. If money, which a bank thinks will not be demanded at once, is deposited, the same is lent as soon as possible, to-day or to-morrow. Money in possession of a banker is restless, and like the waters of the sea is kept in constant motion. The consequence is that through the agency of these institutions less money is needed than otherwise would be to effect the exchanges of business. This is the third great principle affecting the value of money and determining how much is needed—the rapidity of its circulation.

11. The use of credit lessens the use for money. If a merchant buys a large bill of goods on credit, of course no money is needed for the purpose of making the purchase. It may be asked, will not money be needed at a later period, when the credit expires, as much, in truth, as though no credit had been given? Is not the effect of the transaction simply to delay the payment of money, and not to lessen the use of it? Less money will be needed, as will be soon shown.

12. We are all familiar with the wonderful machinery for economizing the use of labor. American inventions for plumbing, seeding, cultivating, reaping, threshing and for almost every other task of the farmer have been carried to a high degree of perfection and are generally used by American farmers. Their effect in economizing the use of labor none will deny. This fact is one of the most common of daily life.

13. Another fact is equally true, that modern commerce has found a way of making payments that dispenses with the use of money in all except a small percentage of the entire volume of transactions. Consequently, the use of silver and gold and money of every kind is becom-

ing less needful. The service that silver would have performed in making payments had its coinage been continued, is insignificant compared with the use of its substitutes. What are these; how do they work?

14. A Pennsylvania farmer sells a quantity of wheat to an agent for a wheat merchant in New York. The merchant sells it to an English purchaser living in Liverpool. How is the New York merchant paid? He draws an order or a bill on the Liverpool buyer for the amount. This order may direct the Liverpool buyer to pay the amount due to the seller, to a third person or to himself. The obligation is the same in either case. The New York merchant, however, wishing to use the amount mentioned in the bill at once, goes to a house that deals in bills of exchange and sells it, getting a check for the amount on a New York bank. What becomes of the bill? It is sent to Liverpool for collection, and at the time of its maturity is presented for payment and a check for the amount is given on an English bank. Is that check collected in money and the amount sent to this country? What is the everyday answer?

15. Another merchant in New York has bought woolen goods in Bradford, England, and he must pay for them. He can do this in two ways. Either he can send gold for the amount, or he can go to a house that deals in foreign bills of exchange and buy a bill, perhaps this very one given for wheat or another, for the amount of his purchase, that is owed by some person in England, and sends this to his creditor in payment of his goods. The English seller accepts the bill and his American buyer is discharged. Suppose the amount of the American buyer's purchase of goods is the same as the English buyer's purchase of wheat, what has happened? No gold has been sent to either country to pay these debts, and yet both have been paid. The American goods buyer no longer owes the English seller; nor does the English wheat buyer owe the American seller. The debt on each

side has been actually paid; and yet not a dollar in money has been paid by anyone; no gold or any other kind of money has gone across the sea. These facts no one can dispute.

16. The transaction may be followed two steps farther. The Bradford goods seller, by accepting the bill drawn on the Liverpool wheat buyer releases the New York buyer just as fully as though he had sent gold to him, and the Liverpool buyer, by paying the Bradford goods seller, has just as fully discharged his obligation to the New York wheat merchant or the banking house that bought the bill of him as though he had sent gold to him. And yet, we repeat, no money has been used on either side. What, then, has happened in this double transaction? The answer is very evident. An exchange of commodities has taken place; the wheat has been exchanged for the woolen goods.

17. In the exchanges between the leading nations this is the mode of making them. The debts incurred on the one side and on the other are discharged by offsetting other debts against them. The debts first incurred are not carried along in a new form; they are actually paid, as truly as though money had been used. Let this fact, therefore, be remembered, that in international payments very generally no money of any kind is used; the transactions consisting really in an exchange of commodities. When these are not of equal value the difference is sometimes paid in gold; often the indebtedness runs for a considerable period and then the tide of trade runs in the other direction and an equalization takes place; sometimes settlements occur by taking securities, bonds, stocks and the like; sometimes purchases are made of other property.

18. It may be asked, Are there not a couple of checks around somewhere that have not been paid? Is not money required to pay them? In tracing out their course it will be seen what a small part money plays in our trans-

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actions at home. Returning to the New York wheat merchant who has drawn a bill on the Liverpool buyer and sold it to the New York banking house dealing in bills of this nature, he gets a check for the amount on a bank in that city. Of course, the merchant could go to the bank and get the amount, but usually he deposits it in the bank on which it is drawn, or in another. If he deposits the check in the bank on which it is drawn, that bank credits the depositor and charges the drawer with the amount and the transaction is ended. No money is paid; the drawer of the check has so much less to his credit, the depositor as much more. The money that may or may not be in the possession of the bank is not in the least disturbed by the transaction; a little bookkeeping has been done, nothing more.

19. Suppose the check is drawn on another bank, what then? The depositor puts it in his bank for collection. Does the bank get money for it? Perhaps, but more frequently it does not. Why not? Suppose the check, deposited in the Broadway Bank, is drawn on the Arctic Bank, and is presented either directly or through the Clearing House for payment? The Arctic Bank admits that the check is perfectly good, but says it has a check deposited with it for the same amount on the Broadway Bank. The one offsets the other. It would be folly for each bank to demand money of the other; the easier and common-sense way is for each bank to exchange checks, which is done, and the debts are cancelled. The amount of the check received from the Arctic Bank is chargeable to the depositor who drew it, and a similar amount is credited to the merchant who deposited the check in the Broadway Bank for collection. This in effect is the nature of these transactions. No money is used in this case any more than in the other. And yet these checks are paid by offsetting one against the other. Both of the checks represent sales; the one was given for a bill of exchange, the other, perhaps, for merchandise. The entire

circle of transactions has been completed, and without using a dollar. And the check given by the Liverpool wheat buyer has run the same course.

20. The fact cannot be denied, that in buying and selling stocks, lands, goods, almost everything, less and less money is constantly used in the more civilized countries where banks are most numerous, and the agencies above described are most highly perfected. In many sales only a very small percentage of money is used. Offsets are daily made to the amount of many millions through the clearing house; and a small sum of money is sufficient to complete them. Nor are the debts thus brought together carried along in a new form, requiring money at sometime or other to settle them. The debts are actually set off against each other, and discharged; they no longer exist in legal or in any form; they are as much out of the way as though money had been paid.[2]

21. The use of credits, therefore, greatly lessens the demand for money. As the more rapid circulation of money has the same effect as an increase of the supply, so the use of credit, by lessening the demand for money, has the same effect as an increase of the supply. This truth may be shown in another way. Not infrequently the superstructure of credit suddenly gives way, and then the need of more money to supply its place is instantly felt. Banks are unwilling or unable to lend; and then the process of hoarding money begins. The dearth of money is everywhere apparent. A few days before, no one ever imagined there was a lack; everybody was supplied; the rates of interest were low; every person having good credit could readily borrow. What has happened? Credit has vanished. Even an enormous increase of money would not be enough. Not having an adequate supply the business world to a large extent is paralyzed. It is then seen more clearly than ever what a potent element is credit. As soon as it is restored, the deserted paths of commerce are once more filled with life.

22. Credit, too, is a measure of a superior civilization. Its roots start in human confidence and ability. And where it can be effectively used in place of money why should any costly go-between be prepared and used for that purpose? But it must be worthy of its name; otherwise it is utterly unfit for its work. And, though unfit, again and again it has been forced on the people. Of all the disastrous uses of credit, its use as money, when not possessing the confidence of the people is the worst.

23. Thus we come in sight of a very important principle affecting prices, namely, money when it possesses an unstable value. Illustrations of this truth are numerous. The value of the notes issued by the Continental Congress soon after their introduction began to decline, which was registered by the ascending scale of prices. The people distrusted the maker. At last, their confidence in it entirely disappeared. They would not take them in exchange for anything. During the Civil War the Southern Confederacy issued a paper currency, which ran the same course. One day an officer was riding along on a fine horse that attracted the attention of another officer, and immediately he wished to buy the steed. "How much will you give?" "Three thousand dollars." "Oh! h—l!" said the owner, "I have just paid that much to get him shod." Across the military line was a much better currency, and the payment of a very small part of that sum sufficed for shoeing a horse. To-day the price in Massachusetts for doing the work does not vary much from that in South Carolina, because the currency used for making payments in both places is the same.

24. Again, prices are affected by the sudden withdrawal of credit and a great demand for money to supply its place. The most apt illustration of this is the sale of stocks pledged for loans. When these are suddenly called, and cannot be renewed with other lenders the pledged securities must be sold, and the large supply, coupled with the inability of persons who would gladly

purchase them if they could command the means to pay for them, seriously affects their prices. In general, a collapse of credit works this result, because there is a lack of means or facilities for making payments. The supply of money is inadequate; commodities must be sold to pay debts, and persons are unwilling to contract fresh obligations, through fear of their inability to meet them; the inevitable consequence is a fall in prices.

25. Lastly, prices may be directly affected by a very large increase in the quantity of money of unquestioned quality. This may happen, but rarely can an enhancement of prices be traced to a change of this kind.

26. Once more prices may be indirectly affected by an increase of credit or supply of money. Thus, if one can borrow readily of a bank and in large quantities, he may engage in undertakings, building and the like, and this great demand for material, occasioned by his new supply of money or use of credit, may affect prices.

27. Thus money affects prices in three ways: First, when its quality or value is distrusted; secondly, when credit vanishes and a greatly increased supply of money, needed to take its place, is not forthcoming; thirdly, and remotely, when the quantity even of good money, under the normal conditions of trade and society, is enormously increased. Under other conditions money is a neutral element having no immediate influence on prices. The remote consequence from a change in the quantity, even though the quality is not distrusted, is rarely of sufficient importance to affect business, and surely not the myriad of contracts or other undertakings that are soon to be fulfilled. The quantity is so large that its value is not easily disturbed. Only when some great change happens, like the debasement of its quality, or the destruction of credit giving rise to a sudden enormous demand, is its value affected. It may be added that when prices thus suddenly recede from a collapse of credit they sometimes as suddenly revive, not

by reason of any great enlargement of the monetary supply, but from the revival of credit, or from the expectation that enough money, even though there be no new increase, can be obtained without difficulty to discharge indebtedness; in other words, that the hoarders of money will cease to hoard, and again put it into circulation. Again, after such a panic or collapse prices sometimes remain stagnant, not because the holders of money still hoard it, or less is circulating than before the panic, but because the demand for nearly everything has lessened. The continued shrinkage of prices cannot be traced to a monetary origin, but can be clearly traced to diminished buying. And whenever their origin can be thus traced, the diagnosis reveals at once the kind of treatment that is required to restore them. A fresh demand must spring up, and this must have its origin, not in the use of such an artificial piece of mechanism as money, but in the wants of the people for the actual use of many things. This is the true cause of every revival in production and exchange.

28. It is true that some persons contend that gold is appreciating in value in consequence of the accumulations by the various nations to establish and maintain a gold standard of payment.[3] The decline in prices of late years has not been traced to this movement, though many have tried to connect the decline with this cause. As most, if not all persons would admit, the prices of commodities depend primarily on the demand and supply. Though the standard of payment is gold, payments themselves are made chiefly by checks, which are settled through the Clearing House, and only a small balance is ever paid in money. Furthermore, as a medium of making payments the gold of the world includes all of its representatives. These are just as effective in carrying on the business of the world and making settlements as gold itself. Now the quantity of gold and its representatives, used for monetary purposes, is greater than ever. Since this is so,

we cannot perceive how its value has been affected by the recent action of a few governments in withdrawing a small portion from active circulation. Look into the subject ever so closely and the fact will be seen that the quantity of gold in a commercial sense, remains unchanged, or rather has been increased. The gold withdrawn from circulation has been more than supplied by other currency equally effective for making payments. This event, therefore, is without significance to business.

29. On the other hand, a large increase in the supply of gold will not have the slightest appreciable effect on prices. The golden reservoir is so immense that even the large additions from the Klondyke and South African mines will not, for many years, if ever, affect prices. They might ultimately, just as the vast metallic additions of the New World finally affected the prices of Europe. But the rise was slow and harmless. Money is an open sesame, and unlike other commodities, its magical power may not be a whit imapired by even a large increase in quantity.

30. Is the existence of such a thing, measuring value and possessing a general purchasing power, a calamity? Should the purchasing power of money be lessened? Would the people be better off if 75 cents instead of 35 cents were required to buy a bushel of corn? This certainly is the belief of many. In truth, would any one be the gainer were the value of money to decline? Of what consequence is the fact to the farmer that now he can get only 35 cents a bushel for his corn, instead of 75 cents, if with the smaller sum he can buy just as much as he could with the larger a few years ago? The debtor class only is seriously affected by any change in the value of money. To debtors it must be admitted that a decline in the value of money would lessen their burden.

31. It is true that, in many cases, their loss from the decline in the prices of their products is not as great as some imagine, because the cost of producing them is less; they can raise two bushels of corn as cheaply as they

could raise one bushel a few years ago. But this does not apply to all, and without delaying to consider this point further, we readily admit that the debtor class in general suffers by reason of the sustained purchasing power of money and its substitutes.

32. Ought, then, the general purchasing power of money to be impaired for the purpose of aiding debtors? This has been often said in times of depression, and an affirmative answer is the doctrine which many at such times have preached. Two answers may be given; first, if this change were caused by increasing the quantity of money and its substitutes fairly and honestly, so that it would be less generally desired compared with things given in exchange, no serious objection could be made. Suppose, for example, that the production of gold should greatly increase (and nothing is more certain) in the immediate future, and that the various methods of using credit should be perfected, so that it would play a still more important part in the world's commerce, no one, we think, could justly complain over the change; but if the impairment in the purchasing power of money and its substitutes were effected by issuing paper money, and compelling the people to take it against their will, as they were compelled to take the legal-tender notes when first issued by the national government; or if the gold in our coins were deliberately debased, by using more alloy or lessening their weight, these methods of impairing the value of the currency would be indefensible. To do such things would be a violation of all principles of honesty and good governing.

33. But there is another and more practical way—by diminishing the production of other things given in exchange for money. Whenever excessive production has caused a marked departure from the former relation between money and the commodities given for it, this relation may be resumed by decreasing their quantity. A diagnosis of the recent depression clearly shows that

this was the proper remedy. To even up the excess in corn, wheat, iron and other commodities by creating an excess of money is indeed a very extraordinary remedy. Yet in the final analysis this is precisely the remedy which many desire to apply. This is to set at naught all experience whenever a surplus has been produced. Even were large additions, of unquestioned value, made to the money and credits of the country, the effect of such additions on prices might be very different from what many imagine. If these were to come first into the possession of the exchanging class, prices might not be advanced at all. This class generally is well supplied with money and credit and they could largely extend their purchases if their decision simply turned on the answer to the questions of means to pay for them. But this is not the important question usually with the exchanging class. It is whether, if they do buy, they can sell at a profit, and the answer to this question turns on the desires and ability of consumers to buy. Now, how can consumers get more money except by exchanging something they have, chiefly labor, for it? If the exchanging class, if investors who have large means, if the fortunate few who are conducting a profitable business today decline to employ labor, though possessing ample means to pay for it, would even a large increase of their means quicken their disposition to spend more? In other words, has an increase of money and credit the same vivifying power under all conditions? Experience says "No."

34. Two causes tend to diminish the value of gold, the rapidly increasing supply and the extension of credit. On the other hand, trade is constantly increasing, which tends to preserve its value. Again, gold circulates in a representative form, the two, gold and its representative, circulating as though they were a single thing and constituting a single fund or medium, so that any addition of either does not directly affect the value of anything for

which it is given in exchange, so long as no doubt exists concerning the redemption of the representative.

35. The way is now prepared for looking a little more closely into the various instruments or things taken in payment or discharge of indebtedness, and for considering which of them fall within our definition. There is no question concerning gold and silver, because they possess a value quite independent of their use as money. They are not redeemable in anything, but are absolute payment. What is meant by absolute payment? That a debtor who has discharged a debt by giving his creditor the required number of dollars has no further obligation to perform, either morally or legally. All kinds of coined metal are regarded as money because the law declares that they may be used as a final discharge of indebtedness.

36. It is true that the silver in circulation, intrinsically worth only one-half its legal value, cannot be regarded as money in the same sense as gold, which is not thus debased, and which is readily taken for all it purports to be worth in gold-using countries. If silver dollars could not be exchanged for gold dollars, creditors, unless required by law, would take them only for their real value, namely, about half they purport to be worth but as they can be exchanged or redeemed for gold dollars, they pass readily for the amount they represent. The truth of this assertion will appear more clearly after we have described the nature of the different kinds of paper obligations in circulation.

37. Are the notes issued by the government that are in general circulation money? There are three kinds of them, and their difference may be briefly explained.

38. First, the notes known as legal-tender notes or greenbacks, which were authorized in 1861. This is a mere promise or obligation issued by the government to give the holder just what it specifies. Such a note is not money in the sense that the dollars which can be received for it are money, for when a person has received them the

transaction is ended. Their receiver ceases to have any relation whatever with their payer. But when he has received legal-tender notes he still has a close relation to the government or maker of them until it has fulfilled its promise and given him the dollars it has promised to pay. Suppose that the value of gold should suddenly decline, the government would be under no obligation to make the loss good to anyone; nor would any person who had paid gold to another be under an obligation to do this; and for the simplest of all reasons, that the gold is final payment; there is no promise of any kind attaching to it. The receiver gets exactly what was promised to him; he is satisfied and can claim no more. But when a person receives a note in discharge of an obligation it is not final payment. It may be indeed as between the receiver and the person from whom he takes it; but the receiver still has a claim against the issuer or maker, which is not made good until the note is paid.

39. Another kind of note (in active circulation) issued by the government is known as a silver certificate. They are what they purport to be, receipts for silver in the possession of the treasurer, which can be redeemed at any time on presentation. They, therefore, are not money, but merely certificates.

40. A third kind of money is known as treasury notes, or silver treasury notes. In 1890 Congress enacted a law providing for the purchase of 4,500,000 ounces of silver per month, at a price not exceeding $1.29 per ounce. To pay for these purchases silver treasury notes were authorized. They are redeemable at the option of the Secretary of the Treasury in either gold or silver coin. In other words, the government bought silver from the miners and gave them its notes in payment.

41. A fourth kind of note in circulation is issued by the national banks. These are redeemable over the counter of the issuing bank. This obligation, therefore, is a note of the issuer, and is not money.

42. Finally, mention may be made of gold certificates, which circulate to some extent, especially among the banks. They are issued for gold, deposited with the assistant treasurer of the United States. Like the silver certificates, they are receipts for gold, which is left with the government, and must be given up when demanded to certificate holders.

43. All of these various kinds of notes and certificates are in circulation among the people, and serve in almost all respects the same functions as money. In other words, they are daily used in payment of obligations. And yet the clearest distinction exists between them and metallic money; they are merely notes, and are not final payments until they have been redeemed. They are payments indeed as between their receivers and the persons from whom they were taken; but they are not payments as between their holders and makers or issuers until payment has been made in whatever form has been promised.

44. We are not so much concerned with the question whether others shall regard all of these paper instruments the same as money, as we are that all shall understand clearly the difference between them and gold and silver—the different functions they perform; the fact that they are notes, while gold and silver are not, because when they are received the receiver cannot expect anything more.

45. When the government was established in 1789, some notes of the Bank of North America were in circulation. The metallic money was all foreign, and the piece of money better known than any other in circulation was the Spanish dollar, a silver coin which had been imported in large quantities from the West Indies in payment for merchandise. There were other coins, English and French; but the Spanish dollar was the most familiar piece. At an early date all realized the necessity of having some kind of money which could be used in making payments and which persons could be legally required to

take. The foreign pieces varied greatly in value; many of them were badly worn; and great difficulties were daily experienced in taking them.

46. Both gold and silver were then in circulation, and in establishing and determining what should be used as money several investigations were made by Hamilton, the Secretary of the Treasury, by Jefferson, the Secretary of State, and by others. One of the important questions was whether gold or silver or both metals should be used. Hamilton favored the use of both metals, without giving a preference to either. He reasoned that if a preference was given to either metal, the value of the other would be impaired or destroyed. It would become, he feared, mere merchandise. So, instead of establishing gold or silver as the sole kind of money, the government determined to coin pieces of both metals.

47. The eagle was to be the piece of greatest value, "ten dollars or units," and to contain 247 4-8 grains of pure or 270 grains of standard gold. In other words, the standard gold was not pure gold, but a metal containing nine parts gold and the other part an alloy. This is the meaning of the phrase "standard gold"—gold of a purity fixed or determined by law. "Dollars or units" were also to be coined, "of the value of a Spanish milled dollar" then current, and to contain 371 4-16 grains of pure, or 416 grains of standard silver. Other pieces were to be coined of silver, the half and quarter dollars, dimes and half dimes containing the same proportions of silver. Cents were also to be coined of copper of the value of one one-hundredth part of a dollar, and also half cents.

48. Thus it will be seen that the two principal pieces authorized to be coined at the beginning of our government were a gold eagle and a silver dollar. Each was to perform precisely the same office, to be a legal-tender in payment of all debts; in other words, debts could be legally discharged by paying them. No creditor could refuse to receive them, and if he did, his debtor was under no ob-

ligation to give anything else to discharge his debt. Neither had any priority over the other.

49. As an ounce of gold was much more valuable than an ounce of silver, the question was very important, What should be the legal valuation between the two? It was determined to fix a relationhip of fifteen to one; or more fully expressed, fifteen ounces of standard silver was regarded as possessing the same legal value as one ounce of standard gold.

50. At that time the legal valuation of the two metals or the legal relationship thus established between them corresponded with the relation or valuation that existed in the business world. In England, France and other countries a quantity of gold was worth fifteen times as much as the same quantity of silver. Indeed, for several years after establishing the mint, and thus regulating the coinage, the market value of gold and silver abroad and at home corresponded with the valuation given by law to the two metals, so that they both readily circulated without any objection on the part of receivers. Neither had any priority or precedence over the other. Neither was worth more for exportation or for any other purpose. An eagle and ten dollars were convertible terms. Either was given at the banks at the option of the holder.

51. But within thirty years the fact clearly appeared that a change had taken place in the relative valuation of gold and silver. An ounce of gold was worth more than fifteen ounces of silver. When remittances of coin therefore, were made from the United States to England, gold was preferred to silver, for the reason that a gold eagle, which could be obtained here for ten silver dollars, could be converted in London into more pounds, shillings and pence than ten silver dollars.

52. The first remedy proposed was to prohibit by legislation the exportation of coins. This plan did not work. The fact became well known, and other remedies were proposed. Reports were made by committees of Con-

gress; at length, in 1834, Congress acted. The eagle was reduced to 232 grains of pure gold, and 258 grains of standard gold, and the smaller coins in proportion. The act further provided that these coins should be taken in all payments when of full weight, determined by their respective values, and when they were not of full weight there should be a corresponding diminution of their legal values.

53. Thus it will be seen that the quantity of pure gold was reduced from 247 4-8 grains to 232 grains, and the quantity of standard gold from 270 to 258 grains.

54. As the quantity of silver in the silver dollar was not diminished, the effect of diminishing the quantity of gold in the gold pieces was to make sixteen ounces of silver equivalent to one ounce of pure gold. But in applying this remedy Congress made another mistake; it undervalued silver, for sixteen ounces was really worth more than an ounce of gold. Consequently, silver disappeared from circulation. Later, the golden riches of California and Australia were discovered, and the effect of these discoveries was to diminish the value of gold, and silver shrunk still further out of sight. So completely did the silver coins, especially the smaller ones, disappear from the channels of circulation, that in 1853 there was a new adjustment of the coinage, and the weight of all silver coins of less denomination than the dollar was reduced enough to secure their presence in circulation; but their legal-tender function was limited to $5.

55. In order to procure bullion for coining these pieces, the treasurer of the mint, with the approval of the director, was authorized to buy bullion. He was required to charge himself with the gains arising from the coinage of the bullion into coins of a nominal value exceeding their intrinsic value, and was to be credited with the difference between their intrinsic value and the price paid for the bullion.

56. In 1861 all specie payments were suspended, and not much was heard about gold or silver except some small coins until 1870, when a bill was adopted for revising the coinage laws. No revision had been made since 1837, and the Secretary of the Treasury requested the Deputy Controller of the Currency to revise them. In the spring of 1870 he completed the task, and the report was sent to the House. Among other amendments proposed was the discontinuing of the coinage of the silver dollar. The reason given for the amendment was that the legal ratio of sixteen to one, existing between the two metals, made the silver dollar worth a premium of about 3½ per cent., consequently it was no longer employed in making payments.

57. The bill was first reported by the Finance Committee of the Senate, discussed twice and passed, and then sent to the House. Mr. Kelley, of Pennsylvania, who was chairman of the Coinage Committee, recommended the passage of the bill. He said that it had received as careful attention as he had ever known a committee to bestow on any measure. "We proceeded, with great deliberation, to go over the bill, not only section by section, but line by line, and word by word." An exhaustive discussion followed, and Mr. Hooper, of Boston, delivered an elaborate speech, in which he thoroughly explained each section. Reaching that relating to the silver dollar, he said: "This dollar, by reason of its intrinsic value being greater than its nominal value, long since ceased to be a coin of circulation, and is melted by manufacturers of silverware. It does not circulate in commercial transactions with any country, and the convenience of these manufactureres, in this respect, can better be met by supplying small stamped bars of the same standard, avoiding the useless expense of coining the dollar for that purpose." Mr. Kelley also added: "It is impossible to retain the double standard. The values of gold and silver continually fluctuate. * * * * Hence all experience has shown

that you must have one standard coin which shall be a full legal tender, and then you may promote your domestic conveniences by having a subsidiary coinage of silver which shall circulate in all parts of your country as a legal tender for a limited amount." The bill passed the House by a vote of 110 to 13, and, after further discussion and amendments by the Senate was referred to a cimmittee of conference, whose report was adopted. Thus the measure received much more careful attention than most measures. Congress did not act blindly in discontinuing the coinage of the silver dollar. Congress merely put in legal form the previous action of the people.[4]

58 This revision of the coinage laws, whereby, among other changes, "the dollar of the fathers" was banished from the list of coins, excited at that time no attention among the people. After a short period, however, wonderful changes occurred in the fortunes of silver. In 1870 Germany was the victor in the Franco-Prussian war, and compelled the conquered to pay a gigantic war indemnity of $1,000,000,000 and used the opportunity to substitute gold for silver as money for Germany. Between 1871 and 1874 nearly every country in Europe closed its mint to the coinage of silver. The demand for silver in the countries of the East, India and China, which for centures, almost, had been constant, greatly slackened. The production of silver between 1868 and 1878 not only doubled, but trebled and quadrupled. All of these circumstances contributed to lessen the value of silver. A new effort was now put forth, especially by the silver producers, to restore through public action the value of silver. To this end it was demanded that silver dollars should be recoined and put into circulation.

59. Congress, acting on this demand, in 1878 passed another bill, authorizing the coinage of the silver dollar, and requiring the Secretary of the Treasury to purchase not less than $2,000,000 nor more than $4,000,000 worth of silver monthly, and coin it into standard dollars. He

was also authorized to issue certificates for the payment of it, which were to be receivable for customs, taxes and all public dues, and when thus received might be reissued. By this act 291,272,018 fine ounces of silver were purchased, costing $308,279,260.71.

60. This legislation, proving ineffective to sustain the price of silver, another act, increasing the amount of silver purchases, was passed in 1890. This is known as the Sherman act, and provided for the purchase of 4,500,000 ounces of silver monthly as might be offered for sale at prices below $1.29 per ounce, and the issue of Treasury notes in payment. It was clearly seen by the most intelligent silver mine owner that this act would have precisely the opposite effect from that anticipated by many who urged its passage; that, instead of enhancing the price of silver, it would, by stimulating production, more than neutralize the effect of the increased purchases by the government. And this was the effect of the law. The value of silver continued to descend.

61. As the government has the option of paying *silver certificates* as well as Treasury notes in *gold or silver,* it could fulfill its legal contract by paying silver on presentation, but it was clearly seen that by adopting this course their actual or market value would decline immediately, and correspond with the market value of the metal given in payment. In other words, if they were to be regarded as mere receipts for silver, and only silver could be obtained for them, they would be worth no more than the silver represented; furthermore, if it could be exchanged for gold only at its actual market or real value, then the certificates representing it would have a corresponding valuation. To preserve or maintain their value, the government adopted and has continued the policy of redeeming silver certificates in gold.

62. Silver certificates, therefore, or the silver they represent, may be regarded as a mixed form of currency, consisting partly of faith and partly of intrinsic value.

At the present time silver dollars contain in intrinsic value about 50 cents, yet they circulate readily at their nominal value, for the reason that the government receives them at their face value from its debtors. Consequently, the silver notes have readily circulated, and so have the silver pieces, without depreciation. Instead of regarding them as final payment, they may be ranked with the legal tender and other notes which readily circulate, because the government is willing to redeem them in accordance with its promise.[5]

63. The amount of gold, however, which the government had in its possession for redeeming them was comparatively limited, and in 1894 fell below $100,000,000. The silver notes increased, and with the legal tender notes amounted to nearly $1,000,000,000. It was feared that the government, whatever might be its good intention, would not be able to continue its policy of redeeming all of them in gold. This fear grew until in 1893, when the law authorizing the purchase of more silver and issuing Treasury notes, was repealed.[6] The government had bought by authority of that law 168,674,682 fine ounces of silver at the cost of $155,931,002.25.[7]

64. Especially those interested in mining silver, and all who believe in a cheaper currency, the poorer the better, were opposed to the repeal of this law; and the conflict between the two classes is not showing any signs of cessation.

65. Since 1873, when the government began to purchase silver in considerable amounts and coin it into money, there has been a gain to the government arising from the difference between the price paid for the silver and its legal or coined value. For example, the government bought silver in 1873 at $1.32¼ per ounce fine, but when this was coined into money it represented $1.38¼, a gain of $0.06 per ounce. The seigniorage thus accruing to the government from coining silver to March 1, 1897, is $82,978,978.97.[8]

66. The entire quantity of silver purchased by the government since 1878 is 496.984,889 ounces fine, which was worth on the first of March, 1897, at 63½ cents per fine ounce, $315,585,405. Its actual cost was $508,933,975. On these purchases the government has lost $193,348,570.

67. When the government first began to coin gold and silver it charged nothing to the persons who brought either metal to the mint to be coined. The government was anxious to create a new coinage of its own, and to stimulate its growth, made this offer to the owners of gold and silver. The bill of this service is known as seigniorage, and is sometimes charged by governments.

68. Whether the government ought to charge anything for coining the precious metals into money is a question not easily answered. Some claim that as an additional value is given to the metals in a coined form, their owners ought to be willing to pay for their conversion into money. On the other hand, it is contended that gold and silver coined is worth no more than it was before, and, as the government has added no value, it should exact nothing for performing the service.

69. Leaving silver out of present consideration in consequence of its fluctuations of late years, let us look at the coinage of an eagle. If the quantity of gold contained therein would bring just as much in an uncoined form, surely the government adds no wealth to its owner by coining his metal. As no charge is now made for coining gold, if an eagle should fall into the fire and be melted a person could take the lump of gold to the mint and exchange it for another eagle, and consequently not a penny would be lost by the accident. Suppose the government did charge a sum for coinage, would that lump of gold have just the same value as an eagle? We should say in reply that if other mints were open to the coinage of gold it would have just the same value, less the expense of transferring it to the coinage place. If all the mints were closed to free coinage, however, what then?

We should probably say that there would be a slight difference, but perhaps too small to make any calculation. In other words, by putting gold into a coined form it is more easily circulated.

70. It is more readily taken than gold in an uncoined form, because the people know its weight and fineness, nothing more. If a person believed that a lump of gold was an eagle that had fallen into the fire and been melted, and that any other person almost would think so, too, he would be willing to take it just as readily as he would an eagle; but ordinarily people would not be so certain, possibly a small portion might be lost in the fire; consequently it would not circulate as readily as a coined piece of the same weight. The coining of the precious metals, therefore, adds to their circulatory power, and thereby adds something to their value. If this something is enough to have an appreciable value, then it is just for the government to take that addition in exchange for the service it performs in transforming bullion into coined forms.

71. At different times in the history of the government a charge has been made for refining gold and silver into *bars,* and also a charge for converting them into coins. The government, as we have seen, has been purchasing silver since 1853 for the minor coins, while no one carried the silver to the mint to be coined into dollars because its legal value after coinage was worth less than the price it commanded in the market. At one time the government charged one-fifth of 1 per cent. for coining gold, but since 1874 there has been no charge for this service.

72. A summary will now be given of the different kinds of money and substitutes therefor, and their legal tender value. There are four gold coins, the double eagle, the eagle, the half eagle and quarter eagle. The double eagle is the largest, of the value of $20, and was authorized to be coined in 1849. The eagle is the oldest of all the gold pieces, and was authorized in 1792. All of the

gold coins are a full legal tender, that is, they can be tendered in discharge of debts whether public or private, and to any amount.

73. The silver coins are the dollar, which was authorized in 1792, but discontinued by the act of February 12, 1873, reauthorized five years later, and finally discontinued by the act of 1890. By that act, however, it was provided that after the first day of July, 1891, as much silver bullion should be coined as was necessary for the redemption of the Treasury notes that had been issued for its payment, and the gain or seigniorage arising thereon was to be paid into the Treasury. The other silver pieces still coined are the half dollar, quarter dollar and dime. The silver dollar is a full legal tender in payment of debts, but the other silver pieces are a legal tender only to the amount of $10. The minor coins consist of the nickel five-cent piece and the bronze cent. The five-cent piece was authorized by the act of May, 1896, and is a legal tender to the amount of 25 cents. The bronze cent was authorized two years later, and is a legal tender for the same amount.

74. The legal tender properties of the various notes issued by the government and the National banks may also be explained. The greenback or legal tender note was first authorized in 1861, and is a legal tender for all debts, public and private, except duties on imports. The gold certificates issued by the government as already explained, are truly indicated by their name.

75. The silver certificates authorized by the law of 1878, when the coinage of the standard silver dollar was resumed, are a legal tender for customs, taxes, and all public dues, and when so received may be reissued. They are not a legal tender between individuals, but only between individuals and the government.

76. The treasury notes issued by authority of the Sherman act of 1890 are a legal tender in payment of all debts, public and private, except when otherwise expressly stated in the contract, and shall be received for cus-

toms, taxes and all public dues, and when so received may be reissued; and such notes, when held by any national banking association, may be counted as a part of its lawful reserve.

77. "Every national banking association shall take and receive at par for any debt or liability to it any and all of the notes and bills issued by any lawful organized banking association." They are therefore a legal-tender between the banks, but cannot be forced on individuals by any national banking association. On the other hand, every national bank must take from an individual any national bank-note tendered to it in pyment of a debt.

78. The government has issued at various times $450,000,000 legal-tender notes. It was the expectation, as soon as the war closed, that some steps would be taken for reducing this quantity, and of resuming payments in specie, which had been suspended since the beginning of 1862. Congress finally authorized the Secretary of the Treasury to refund the various notes of the government as they should be presented by their holders in interest-bearing bonds. Not more than ten millions were to be refunded within the first six months after the enactment of the law, and thereafter at no greater rate than four millions a month. Mr. McCulloch, who was then Secretary of the Treasury, was desirous of having authority to refund them when presented, without any restriction on the amount, but Congress was unwilling to invest him with so much authority. The work of refunding them was begun; after a short time the business of the country became depressed, the people ascribed the change to the contraction of the currency, and the Secretary ceased to continue the policy. The amount withdrawn by the 31st of December, 1868, was $142,439,958. The amount of legal-tender notes still outstanding was $356,000,000. At a later period the amount was increased $26,000,000, though many claimed that the addition was contrary to law.

79. Finally, in 1875 a measure was adopted for resuming specie payments on January 1, 1879, providing, among other things, for the retirement of some of the legal-tender notes. Whenever $100 of national bank-notes were issued, $80 of legal-tender notes were to be withdrawn until the amount was reduced to $300,000,000. This feature of the measure, however, did not remain long in operation; for when the amount had been contracted from $382,000,000 to $346,681,016, Congress forbade the Secretary of the Treasury from going further, and declared that thereafter the amount then outstanding should be kept in circulation. And so they continued to circulate, a debt against the government, payable on demand, which must be immediately renewed by delivering them to other creditors until 1900, when Congress provided for their permanent redemption and retirement on presentation by the holders.

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[2]See Ann. Rep. Controller of the Currency, 1896, p. 92, on the increase of the use of credit instruments; also Ann. Rep. 1894, p. 17. Much information is continued in the earlier reports.

[3]The Future of Gold, R. E. Preston, 160 N. Am. 195.

[4]Documentary History of the Coinage Act of February 12, 1873. Senate Misc., Doc. 41, Cong. 2 Sess. No. 132. Reprinted in 1896.

[5]The cost of circulating paper.

Contract price of distinctive paper per 1,000 sheets	$5.22
Expenses at the mill	.729
Express charges	.259
Expenses of handling at the Treasury Department	1.11
Total cost per 1,000 sheets	7.318
Cost of engraving and printing per 1,000 sheets of perfect work delivered to Treasurer of the United States	40.77
Total cost per 1,000 sheets	48.088

	Cost per 1,000	Cost per 100.
$1 certificates	$12.02	$1,20
$2 certificates	6.01	.601
$5 certificates	2.40	.24
$10 certificates	1.20	.12
Totals	21.63	2.161
Average	5.41	.54

Life of certificates on average, 3 years; cost per year $100, 18 cents.

Life of $1 certificates, 2 years; cost per year per $100, 60 cents.

Cost of coining silver dollars, 1 to 1¼ per cent.

Cost of coining subsidary coins, about the same.

Average life of coinage, about 15 years.

Average loss on recoinage, 6 per cent. ¼

Total cost, 7¼ per cent., or $7.25 per $100 for 15 years.

Cost of maintenance per year, 48 cents per $100.

About ½ of 1 per cent. This table is taken from 34 Cong. Record, 2773.

[6]Aug. 28.

[7]Amount, cost, average price and bullion value of the silver dollar purchased under the acts of Feb. 12, 1873; Jan. 14, 1875; Feb. 28, 1878, and July 14, 1890.

Acts.	Fine ounces.	Av'ge cost price per fine ounce.		Bullion value of a silver dollar.
Feb. 12, 1873.....	5,434,282.00	$7,152,564.00	$1.3169	$1.0180
Jan. 14, 1875.....	31,603,906.00	37,571,148.00	1.1888	.9194
Feb. 28, 1878.....	291,272,018.56	308,279,260.71	1.0583	.8185
July 14, 1890.....	168,674,682.53	155,931,002.25	.9244	.7150
Totals	496,984,889.09	508,933,974.96	$1.0240	.7920

[8]See Mint. Rep., 1896, p. 26.

CHAPTER XXVIII.

THE NATIONAL BANKING SYSTEM.

1. National banking is constitutional.
2. Objects of the national banking law.
3. Excellence of national bank-notes.
4. Defects in the system. Management of the reserve.
5. Why the present regulation was adopted.
6. How a depleted reserve is repaired.
7. How the reserves sent to New York banks are used.
8. Operation of call loans.
9. How a reserve-keeper gets money to return when it is requested.
10. Why call loans ought to be lessened.
11. Banks usually know that such loans are for speculative purposes.
12. A reserve kept with another bank is not a reserve.
13. How can an emergency circulation be provided?
14. Plan of a new state bank issue based on capital, etc.
15. Analysis of discounts.
16. Why restrictions should be imposed on bank-note issues.
17. Too many notes will be issued.
18. The danger would come from new banks.
19. Soulless adventurers would go into the business.
20. The safety-fund plan to secure their payment.
21. Objections.
22. If an automatic system of state bank issues were adopted there would be loose systems of banking in some states.
23. Their circulation would not be local.
24. Banks of different sections would exchange notes.
25. If state bank systems are established, bank-notes should be very dissimilar in form.
26. They should not be supervised by the state.
27. The state should not attempt to prop them up.
28. An emergency circulation should be established.
29. The action by the Bank of England on unusual occasions.
30. The German plan of providing an emergency circulation.
31. How it works.

32. How it may be adapted to our needs.
33. Same subject.
34. Its adoption would ward off the use of it.
35. A permanent increase of the currency is no remedy.
36. The adoption of a plan ought not to be delayed until an emergency arises.
37. The circulation is ample for all ordinary occasions.
38. But not as well distributed as it might be.
39. The creation of small banks.
40. Objection to them.
41. Branch banks.
42. Other modes besides bank action of rendering property negotiable.
42. The danger in issuing certificates of property of fraudulent issues.
43. The issue of notes by borrowers on their property guaranteed by banks.
44. Their property would thus assume a negotiable character.
45. Objection to the plan.
46. Objection further considered.
47. The issue of notes by banks bearing interest.
48. No plan for state or private issues should be adopted until other measures of relief are tried.

1. The right of the government to establish a bank as an agency for aiding its operations was long ago declared by the highest authority to be constitutional. Two National banks, one in 1790 and the other in 1815, have been established as governmental agencies. To them were confided the deposits and, besides keeping them, more important assistance was rendered by lending money to the government.

2. In 1863, the National banking system was established. Its object was two fold. First, to furnish the people with a better bank currency than was then in circulation; and secondly, to furnish a market for United States' bonds, which the government was then very desirous of selling to get money for carrying on the war. At that time the aggregate National bank capital was limited to $300,000,000. Notes could be obtained by any bank to the amount of 90 per cent. of the par value of its capital, which it was required to invest in the bonds of

the government. Some persons criticised this system because the banks made a double profit, one on their capital and another on their circulating notes, based on their capital. Had such critics understood the business of banking better they would have known that the banks had always earned this double profit. It was, perhaps, a little more apparent now when their capital was invested in the obligations of the government, than before when it was invested by the State banks in various stocks, bonds and other obligations.

3. This system has well fulfilled the objects for which it was created. Such a perfect system of circulating notes has been established that they readily circulate in any part of the United States. This system also was a triumph in furnishing a market for the government bonds, as the full amount which banks were authorized to buy were soon taken. After the war was over, as the government was no longer a borrower of money, the banks were permitted to organize without any limit to the aggregate amounts of their circulation, and they then began to experience difficulties in getting bonds without paying a considerable premium for them. So the law was changed, and banks having a capital of over $150,000 were required to invest only $50,000 in Government bonds, while the remainder could be invested in other obligations. Banks having a capital less than this amount were required to invest only 25 per cent. in Government obligations. Though permitting banks to invest a portion of their capital in other securities, the law has not been changed in issuing circulating notes. A bank to-day, as in the beginning, can get them only to the amount of 90 per cent. of the Government bonds which it may own. If a bank has a capital of $1,000,000 and only $50,000 is invested in government bonds, it can obtain and use only $45,000 of circulating notes. So, too, if a bank has a capital of $50,000 and only 25 per cent. or $12,500 is invested in Government notes, it can

obtain only 90 per cent. of this amount, or $11,250 of notes.

4. Two defects, which ought to be amended without further delay, have become apparent in the operation of this law. The first relates to the reserve. The National banks are divided into three classes with respect to the amount of reserve they must keep. The banks in the central reserve cities, New York, Chicago and St. Louis, are required to keep 25 per cent. of their deposits on hand as a reserve to meet the demands of their depositors. The banks in sixteen other large cities, called reserve cities, also must keep 25 per cent., but need keep only 12½ per cent. of this amount in their own vaults; the remainder may be kept with National banks in the central reserve cities. All other National banks are obliged to keep only 15 per cent. as a reserve; and of this amount only 6 per cent. at home in their own vaults, and the remainder with one or more banks in the reserve cities.

5. This feature of the law was one of the strongest objections with many of the banks at the time of enacting the national banking law. The more conservative bankers believed that these amounts were none too large to keep; the less conservative maintained that they could judge more wisely than the Government how much they ought to keep, and therefore ought not to be restricted in this regard.

6. The object of a reserve is to have money for emergencies. Whenever, to meet a sudden demand, a portion of a bank's reserve is taken, after exhausting all other funds that it may have on hand, such action is justified, and it is required to make the amount good simply by cutting off loans, for the effect of such action will be to swell its funds through the payment of money by depositors and borrowers. The funds of a bank are like the waters of a stream which, if intercepted, will accumulate. As money flows into a bank, if loans and dis-

counts are cut off, in a short time, ordinarily, its reserve will be restored.

7. It has been found by experience, that so much of a bank's reserve as may be kept with another can be used by it in only one way, namely, in the form of loans to speculators. This fact determines at once the destination of the larger portion of reserve money. Most of it is sent to the national banks in the city of New York. Of course they would not be willing to keep this reserve if they could not do something with it; yet it must be so loaned that if demanded it can be quickly returned, and speculators are the only persons who can borrow money on such terms. A bank keeping the reserve of another would hardly dare to lend it on time, because if it was immediately demanded, or on a very short notice, and it was not sent as desired, the results might be very serious. It may be asked, "How dare a person borrow money on such terms?" The borrower gives such securities to the bank as are bought and sold in the New York exchange, and expects, if the money is suddenly demanded, that he can transfer them to another bank and get the money there to pay the other. Having faith in his ability to raise money in this manner, he borrows at lower rates than are paid by those who borrow for a fixed period.

8. One of the peculiarities concerning call loans is, if only a few outside banks call for their reserves in New York, borrowers have no difficulty usually in obtaining other loans in payment of the calls made on them in the manner described; but it often happens that when outside bank demands its money from its reserve agent or bank in New York, many other outside banks demand their reserves at the same time. When this happens the situation to call loan borrowers is entirely changed. They cannot go to other banks with their securities and borrow money, for the reason that demands have been made on them for their reserve money, and they have none to lend. What, then, can borrowers do? Take their secur-

ities to the stock market and sell them. But when a large amount of stock is thus suddenly thrown on the market, by virtue of the operation of the most familiar of all principles, that of supply and demand, its price rapidly falls. Moreover, the decline is accelerated by the fact that buyers are scarce because they are unable to borrow money from the banks to pay for them, even at lower prcies. Not infrequently banks, knowing that if the securities for their loans are sold the sums realized will not be enough to pay the amount borrowed on them, hesitate to throw them on the market. If they do, they will sacrifice a portion of the amount due to them besides destroying the stock market itself.

9. How, then, can a bank get money without selling the securities thus held? It can cut off loans to the mercantile classes and by so doing accumulate a fund for paying back to the banks the sums due to them. Thus one class or the other must be strangled to collect money to pay the reserves due to outside banks.[1]

10. There is another consideration worth noticing. The National banking law authorized the creation of banks to assist the mercantile classes. The seventh clause of the fifteenth section, states clearly the objects of thees institutions. By it they are authorized to conduct through their officers or properly authorized agents the business of discounting and negotiating bills of exchange, promissory notes and other evidences of debt; to buy, sell and exchange coin and bullion; to secure deposits; to loan money on personal security, and to obtain and issue circulating notes. These things are to be done for the mercantile classes, and not for investors or speculators. It is well known that almost all loans made on demand are to speculators, and successive controllers of the currency have criticised the conduct of banks in feeding this class with money contrary to law.

11. It may be contended that banks do not know whether money borrowed from them is to be used for

speculative purposes or not; this objection is narrow and technical. In truth banks usually know that call loans are of a speculative character. But if banks were required to keep their reserves at home, the chief source of supply for speculators would dry up, and the legitimate business of the country would be an enormous gainer. Of course banks would still continue to send money to New York to pay their drafts, but not nearly so much as they now send there. What, therefore, ought to be done is to amend this feature of the National banking law, and require banks to keep all their reserves in their own vaults. Perhaps if this change were made, the amount of bank reserve in the smaller places might be lessened. Perhaps if the country banks kept 7½ or 10 per cent. it would be sufficient; and banks outside the largest places 15 per cent. or possibly 20, or some other figure lower than the amount now required. Whatever might be the amount, it would be an actual reserve, for it would be in the actual possession of its owners and at their complete command.

12. At present this feature of the law to a considerable extent is a farce, because a reserve kept with another bank cannot be properly called a reserve. Seventy-five per cent. of it is loaned, and if it could not be, the reserve agent would certainly not be willing to receive it and pay interest thereon. This process of having, keeping and lending a reserve at the same time is the most remarkable sleight-of-hand performance yet practiced with money.

13. The other feature of the law requiring amendment relates to the circulation. The problem of banking is a peculiar one. The great mass of deposits are payable on demand, yet in truth, as all know, are loaned out, and therefore cannot be had if demands were suddenly made for all of them. What the banks need is some method whereby on a sudden emergency they can get control of money or substitutes that will satisfy their depositors.

Until this is done a shadow will always rest on the business of banking. The question then is, "What change can be made for relieving bankers of this peculiar situation?"

14. A change has been strenuously urged of late years in the system of bank-note issuing, permitting banks to issue notes by State authority on the strength of their capital, surplus, undivided profits and discounted paper. If this change were made, a bank could readily obtain a supply of notes in times of emergency and thus the danger that now confronts them would pass away.[a]

15. Let us look a little more closely into the function of bank-note issuing for the purpose of finding out the reason for making the change. A debtor owes his creditor $10,000, and offers to give him his note for four months. The creditor tells him that he prefers money or other notes, as he is a little short himself, or is afraid of his debtor's ability to pay his note when it becomes due. The creditor says to him, "I am unwilling to take your note, but if you will go to the bank in this place and get its notes, I am perfectly willing to take them in payment of your debt." The debtor goes to the bank and asks the cashier or other officer if he will discount his note of $10,000 for four months, and to this question a favorable reply is given. The notes of the bank to the amount of $10,000 are given to him and these are taken to his creditor, who is perfectly willing to receive them in payment of his debt. What is the nature of this transaction between the borrower and the bank? They have merely exchanged credits. The bank has received the note of the borrower, while he in turn has received the notes of the bank. His creditor is willing to receive these because he can readily exchange them; they have a better circulating power, a larger credit, than the notes of the borrower. And in general it may be said that the notes of a bank have a much more extended credit than the notes of individuals, and for this reason borrowers desire

to obtain them. So they are exchanged and for this service a bank receives compensation from the borrower, known as interest. The borrower may be regarded in another aspect. He is desirous of getting something more than the mere credit of the bank. He has products of various kinds to sell, grain, cattle and the like, and is unable to sell them. What he wishes to do is to get other people to carry them for him, just as the iron manufacturers in England, who have warrants issued against their iron, are able by this method to get others to carry it for them. If we analyze the function of borrowing a little further we see that when the borrower gets the bills of a bank and gives them to persons whom he owes in payment of labor, store bills and the like, the receivers are truly carrying his products for him until the time comes for returning a similar amount to the bank.

16. We have shown elsewhere why the notes of a bank should not be considered as money. But they serve as an effective substitute for money whenever they are readily taken, as the notes of the National banks have been from the beginning. Now it is maintained, and with strong reason, that banks ought to be permitted to exchange their credit for the narrower credit of individuals without restrictions; and that, if they were permitted to do so, they would make more money, while the business world would gain greatly. In theory nothing can be said against such a use of credit. And a system founded on such a use of it is scientific, while the present system is not. No issue is presented between myself and those who believe in a self-adjusting, or rather, individual adjusting of bank credits for private use. The objections here given are of a practical nature, resting on the moral unfitness of the people to adopt such a system without grossly abusing it. We shall briefly note some of the objections.

17. First, there is great danger that banks will abuse their credits, and issue too many notes. It has been said

in reply to this that there is no danger of an excessive issue, because if more notes are pushed into circulation than are needed, they will return to the issuers for redemption. An excess, it is contended, cannot be long kept in circulation. To this it will be replied that the temptation to keep out as many notes as possible for the sake of gain is very great; and experience, which is the most conclusive of all teachers, has shown over and over again that banks have thus abused their credit, ruining their institutions and entailing great loss and suffering on the holders of their notes.

18. Again, it is contended that banks have grown wiser by experience and would exchange their notes for individual notes with more caution than they did formerly. This, unquestionably, would be the course of many banks; but unfortunately, the banking system is no stronger than the weakest links; and nothing is more certain than that in these days of feverish anxiety to make money, a class of men would invade the banking field, if such a system were adopted, and abuse the system, issuing as many notes as possible without regard to their permanent value. They would expect to ruin the credit of their banks in a few years, but in the meantime make their fortunes, and having done this would be oblivious to the consequence of their conduct. The danger, then, is not from those who are in the banking business, but from this new growth which would certainly spring up and curse the land with their rascality. In theory, the system of issuing notes on the security of merchandise, and thus endowing it with wings, is perfect; in practice, the paper circulation of the country would be ruined because of the inherent and persistent cussedness of a class which is ever watching for a chance to make a fortune regardless of principle, and the members of this class are more numerous and conscienceless than ever before in the nation's history.

19. How, then, can a system of exchanging bank

credits for individual credits be adopted that shall prevent soulless adventurers from engaging in the business and abusing it?

20. A well-considered plan is to raise or secure for the redemption of the notes of every bank that fails a fund to which every bank shall contribute. A fatal objection to this plan is, many banks would not be willing to contribute to the creation of such a fund. The work of creating and paying it to the note-holders of failed banks cannot be likened to the work of an insurance company. It indeed establishes a fund to indemnify the insured who suffer by fire, but if the house of a person insured is burned, can he always go to the insurer and get his money? Yes, if he has been honest and complies with the conditions of the insuring company. But if he has committed arson and burned his house, he cannot get one cent of insurance. Now, it is proposed that banks shall establish a safety fund, and while one of the number may be conducting its business in a most shameful and ruinous manner, speculating, discounting paper which competitors know will never be paid, they are not onl yhelpless, but indeed are sustaining it, by assuring the public that no matter how villainously it may be conducting its affairs, its notes are perfectly safe, because a fund has been created, out of which they will be paid. The most conservative banks will long hesitate to join in creating a fund that can be thus perverted.

21. It would be quite another thing if a fund was created for the payment of losses honestly incurred and for errors in judgment, which are inevitable to the business of banking; but it is not proposed to make any discrimination in its use; it is to be paid absolutely, in the event of a failed bank, to the holders of its notes. As experience has shown that rascals are in the banking business, bankers who act conservatively and who are willing to pay for their losses, but not for the losses of others, would be disinclined to become contributors to the fund.

22. Again, if an automatic, self-regulating bank currency was established by State authority, while many of the banks would probably establish conservative systems of banking, the cunning ones would succeed in some of the forty-five States in establishing looser systems of banking, by which, for a time, they would thrive and make money. They would expect that their notes would mingle in the general mass of paper circulation, and that the people, who have been in the habit of examining them, would not discriminate between one note and another. Before the people had found out the difference, and separated the tares from the wheat, the issuers would have made their fortunes, and be ready to laugh at their victims.

23. It is said that if banks returned to State systems their circulation would be essentially local, and there would be no danger of imposing on the people. This is precisely what would not happen. When the National banking system was first established many banks, fearing that their notes, if circulating in their own vicinity, would be presented for redemption (although only United States notes could be obtained in exchange for them), arranged with other banks for an exchange. The officer of an Eastern bank would exchange its notes with those of a bank in the West. So a large portion of the National bank circulation in the East consisted of the notes of Western banks; while in the West the circulation consisted largely of the notes of Eastern banks. Many wondered how so many notes had become waifs on the great sea of circulation. They had not been carried by the ordinary winds of trade; but had been artificially transported by the express companies.

24. If the State bank systems were resumed, notes would doubtless be exchanged in the same way. Banks would speedily arrange with each other for their exchange, to prevent their convenient redemption. The cunning ones, who expect to make their millions by the

adoption of the system, would readily invent ways, not only of issuing their notes, but of keeping them away from their counters for redemption. This they could do easily enough for a time until others found out how their business was conducted.

25. If, however, a return is ever made to State banking, two or three things ought to be done. First, the notes issued by State banks ought to be made so very different in form, color, and design from the various kinds now circulating, that all except blind persons could easily understand that a new kind of note had come into the world. If this was not done, the ignorance of the people is so dense concerning the kinds of notes now in circulation that they would not discriminate between the new and the old. Many who are now clamoring for a return to State banking well understand the enormous advantages arising from the perfect faith of the people in every kind of note in circulation, and from their inability to discriminate between them and others that might be added to the list. As a bank-note or Government note circulates as well in one place as in another, and the people rarely read them, opportunities to swindle the people by passing off poorer notes on them would be great. No wonder that the reapers are longing to enter the field, for it is dead ripe for their operations. The field was never so fully prepared, by reason of the excellence of the present circulation, for perpetrating this colossal fraud.

26. Again, the State ought not to supervise the work of such institutions. This would be a blunder of the first magnitude. The examinations now conducted are bad enough, but they would be still less trustworthy were this additional function undertaken. A badly managed bank would endeavor, if possible, to control the examiner and to blind his eyes. That would be one of the first and most indispensable steps in the process of issuing notes. False returns of the quantity issued would be one of the most common frauds. The approval or the ignorance of

the bank examiner would be one of the most desirable ends in banking. The public, therefore, ought to be warned of the dangers of this system, and the State ought to take no part nor lot in superintending the banks conducting this business. The people have had all the bank supervision they can stand; it would be a mockery to carry it further. If the people wish to give banks authority to furnish them with a currency, then let them take care of it, and be responsible for it. For the bank examiners would certainly prove quite incompetent to extend their examinations in this direction; it would be easier to fool or deceive a bank examiner with respect to a bank's issue than about anything else. Whatever laws might be passed, it would be quite impossible to prevent banks in some of the forty-five States from issuing notes outside any regular authority; and so we repeat that the State should keep its hands entirely off this business.

27. These are some of the reasons why State bank notes should not be issued; but if they are, ought the States to prop up their value by supervision which cannot be efficiently executed?

28. What, then, should be done? Evidently a way must be provided to pay depositors quickly whenever large sums are suddenly demanded. These occasions come unbidden and are always unwelcome. Now, bankers can pursue only one course, cut off loans entirely or reduce them to the narrowest possible limits in order to accumulate funds to pay their depositors. In the autumn of 1896 depositors began to draw out very quietly their deposits and put them away to be prepared for any turn in events if Mr. Bryan were elected President. Bankers became alarmed, they could not predict the extent of the movement. What was the consequence? Unwilling to lend, the rates of interest advanced to a high figure. As soon as the hoarding movement ended and depositors began to return their money, the fear of bankers passed away, and rates of interest quickly fell to their old level.

29. The fears of bankers are always aroused whenever such movements are impending, or are in progress among their depositors. How shall these emergencies be met? We all know how they are by the Bank of England. It has a fixed circulation, in some respects like ours, which cannot be quickly expanded without violating the law. On four occasions the bank has either disregarded this or announced its intention of doing so. And the issuing of a small amount was sufficient to allay the fears of all.

30. When the Bank of Berlin was reorganized in 1875, a wiser plan was adopted. It was permitted to issue more notes on adequate security by paying a tax at the rate of 5 per cent. while they remained in circulation. The tax was intended to be high enough to prevent the bank from making money by thus expanding its circulation, and to induce it to withdraw the excess as soon as the emergency for issuing it was over.

31. This plan is highly successful. On several occasions the bank has applied for an increase of issue, which has been readily granted. The notes have been put in circulation, remaining there for varying periods, and then withdrawn. By this system there is no danger of a money famine, for the bank can always obtain additional notes on the deposit of proper security. On the other hand, the tax is high enough to keep down the temptation to issue more than are really needed, because no profit can be made by expanding the circulation, beyond the regular amount.

32. In this plan may be seen a wise move, we think, for expanding the circulation of our banks on extraordinary occasions. Endow the clearing-houses composed of twenty or more banks with authority to issue additional notes on the deposit of proper security, consisting, perhaps, of its discounted paper. If this be thought too risky, prescribe a list of bonds and stocks that may be thus used. Add to this security perhaps the joint liability

of all the banks for their payment. For the privilege of doing this require the banks applying for an increase to pay a tax at least equal, if not considerably exceeding, the legal amount of interest prevailing in the State where the bank is located. At all events the rates should be high enough to prevent banks from getting an increase merely for money making purposes. If a bank could be fully trusted, the law might provide that all of the interest derived from such an increase should be taken by the Government as a tax for the privilege of issuing them. But whatever might be the amount of the tax, it should be high enough to restrain a bank from issuing or keeping notes in circulation longer than the occasion for their issue.

33. There might be added many suggestions and criticisms of details concerning the plan of making emergency issues. Perhaps an objector might require that the Government should prescribe a series of bonds and stocks to be taken as security; for example, the stocks and bonds of all railways paying dividends, and the bonds of all municipalities paying interest. If such regulations were made concerning the security to be taken, a bank would have no difficulty in procuring them, as vast quantities are now in existence.

34. If such a plan was adopted, the fact that there was an effective method for obtaining an additional supply of notes would do much toward preventing the rise of occasions for their use. We should profit by English experience. The danger is intensified when there is no way of quickly expending the circulation. Provide an effective plan, whereby every depositor and borrower will feel assured that he can get funds whenever they are needed and deposits will no longer be withdrawn and hoarded, or borrowers resort to unusual methods to get money.

35. Any permanent increase of the currency, however large, affords no remedy whatever for such a con-

tingency. Double the currency, and business would soon accommodate itself to the additional amount, and the same danger of stringency or inability on the part of depositors to get their money would exist. What is needed is a quick method of safely expanding the circulation whereby depositors can withdraw their deposits and borrowers be accommodated. The Bank of Berlin has provided an effective way—a way that we should follow with such changes as our different surroundings and modes of doing business may require.

36. The banks ought not to wait until depositors are pressing for their deposits to take action. They should act now, while under a clear sky.

37. These are the two most important changes needed to perfect our National banking system. It is folly to suppose that we have not circulation enough to transact the business of the country. We have more in proportion to the amount of business transacted than any other great nation except France Great Britain is doing more business with less currency, yet no complaint is ever heard in that country of a lack of banking facilities or of money.

38. Yet these amendments would not satisfy all. They believe that in some sections of the country the supply of money is inadequate, and that the present system of banking will remain imperfect until it provides, everywhere, for a larger monetary supply. It is true that there is but little money in some places; this, however, does not prove that the Government, either State or National, has been unmindful of its duties. If the supply were greatly increased, would these barren places have more? All the places that have anything saleable are supplied. If there are places having grain and other products which they cannot sell because buyers have not the money, though having other property they would gladly give as security, then its scarcity would clearly appear, but this can never be shown merely from the fact that

there is not a present supply. One person has never had any money or only a very small sum during his life; another has had millions since his boyhood; but the varying conditions of the two do not prove a scarcity of supply in the one case and an abundance in the other. Just what it proves is too evident to require statement. A proper test to apply is one's ability to get money for making a purchase when it possesses good credit, or property that he can give in exchange. When he cannot get it under these conditions, he may truly conclude there is a scarcity. We do not think it can be shown that there is the slightest scarcity in any place to-day where persons have something to sell to purchasers, or to use as good security to lenders of money.

39. In 1900 two amendments were made to the act worthy of notice. One of these permitted banks to issue notes to the par value of their bonds held as security, an amendment long desired and reluctantly granted, though not a single intelligent objection has ever been presented against the change. Another amendment of more doubtful worth permits the establishing of banks of $25,000 capital in places having less than three thousand inhabitants.

40. One of the strong objections to this radical departure is that evil-minded persons may be able to borrow that small sum, establish their bank, issue its notes, and with these pay off their lenders, and thus have no real capital to lend to anybody. To do this would be to revive the old wretched system of State banking, which the National system had so effectively killed.

41. The granting of the right to found such banks was deemed preferable to granting the large banks in the principal cities the right to create branches. The two United States banks had branches, and a few State banks with branches were organized and conducted in a similar manner. For a long period, however, branch banking has been unknown in this country. In Canada and Eng-

land and Continental countries branch banking has long existed. This method of banking has been discussed of late years and is growing in popular favor. One strong reason for creating them is the belief that fresh capital will be drawn by them into places where they are organized, while the establishing of new banks in such places would have the effect simply of drawing together the capital already existing in them. In other words, branch banking is an admirable system for dispersing more generally the capital existing in a country. It is more equalized than it would be through the creation of even a large number of additional independent banks. Furthermore, branch banking is the better system because the managers would be sent and supervised by the parent bank, and in many cases would have more experience than the managers of small independent banks.

42. If these modifications of our National banking law should prove to be inadequate to meet the wants of the country, a new plan might be adopted based on the following considerations: Negotiability may be given to the various products of the earth by the use of a negotiable representative, like the iron-warrants issued by the English manufacturers of iron. By this system the iron assumes a truly negotiable character; the manufacturers are relieved of their products as soon as their warrants are issued and put in circulation, and they are in the receipt of money wherewith to continue business. Cannot the same idea be introduced or extended to other products, and their producers be relieved of the burden which many of them are often quite unable to bear? Indeed, it has been proposed that iron and cotton should be stored for the purpose of issuing warrants against them, to be sold, or used as security for loans, or taken in payment for debts. What now prevents farmers, cotton planters, iron manufacturers and all other producers of commodities from perfecting their plans for storing their produce and issuing certificates for such quantities as may be

thought most expedient, and putting them into circulation? By so doing they would add wings to their products. Would they not circulate? Why ought they not to be as readily received as bank notes issued by a bank on the security of the same quantities of produce, specified in the note? For one to refuse such certificates, though willing to accept the notes of a bank representing precisely the same thing, would be to act with "a wisdom not according to knowledge."

43. It may be asked, Could not frauds be easily perpetrated with these certificates? Certainly, but so they can be with an extensive bank note circulation based on the produce of the country.

44. Another mode is suggested. Suppose a farmer's grain was stored in a manner satisfactory to a bank, and that his notes were issued for small amounts, say ten dollars, bearing a rate of interest that could be easily calculated, and guaranteed by the bank and payble by it on demand. Besides the borrower's liability for the principal and interest, he would give the bank some compensation for its guaranty. Would not such notes circulate? At first, they would probably circulate without any thought of the payment of interest, but the longer they ran, the greater would be the accumulation of interest until the arrival of a period at which the interest would be exacted by the persons parting with them to new holders. After awhile the notes would get back to the issuing bank, and payment be demanded. In this way they would cease to circulate.

45. Two obvious advantages would flow from such a system. First, the money needed by borrowers could be easily obtained. Their power to borrow would be limited only by the property pledged for their redemption. In other words, all products and other property might be converted into a negotiable form. Under such a system even real estate might become negotiable. Second, to get the interest accumulating on the notes would

be an inducement to present them for payment. Elsewhere we have shown the dangers of attempting to issue ordinary bank notes. Thus a strong motive would be created for retiring them.

46. The weakest element in the plan would be to protect holders from loss. Would there not be danger of over-issue? If banks guaranteed them on poor security and borrowers were unable to pay them, holders might suffer. As every one knows, there is no danger concerning the security of the notes that are now issued. If the system were thus enlarged the security of the notes would be lessened. Many restrictions would be needful, and at best there would be more risk attending the creation of such a circulation.

47. It may be asked, Why not permit banks to issue their own notes bearing interest, and make such terms as they please with borrowers? Would not borrowers be accommodated quite as effectively and the return of the notes be as fully secured? Perhaps so; either mode of issuing them is, we think, worthy of consideration. Of course, from the banker's point of view there would be a strong objection to both schemes, the payment of interest to holders, which would lessen bank profits. But as note holders would run some risk of their non-payment, why should they not be paid something for their risk?

48. Finally, in our opinion, neither plan, nor any other for State or private issues, ought to be adopted until it is clearly evident that the extension of the present system in the manner proposed is inadequate to meet the legitimate demands of the people.

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[1]See article by A. D. Noyes, "The Banks and the Panic of 1893," 9 Polit. Science, 2, 12; "The Banks and the Currency Question," 46 Bank Mag., 169, Sep., 1891.

[2]This view is more generally entertained by bankers than the view expressed in the text. It was felicitously developed by the late George S. Coe, Pres. of the Am. Ex. National Bank of New York, in addresses at conventions of the Am. Bankers'

Assn. Proceedings, 1879. 38; 1881, 29; 1882, 5; 1891, 43. A plan was reported and adopted, based on this idea at the Baltimore Convention of 1894. See remarks of the Nation thereon, Vol. 59, 300. Numerous papers have been read at the conventions of State Bankers' Associations on this subject, which appear in their reports. The ablest advocate of this view is Horace White, National and State Banks, 3 Annals of Am. Acad., 529; his address on "An Elastic Currency," Proceedings of Am. Bankers' Assn., 1893, 58, and his work on "Money and Banking." See also articles on "Money and Bank Cedits," H. W. Williams, 5 Annals of Am. Acad. 531; "Deposits as Currency," C. F. Dunbar, 1 Quar. Jour. of Economies, 401, and "The Bank Note Question," 7 Id. 55; "The National Currency," 59 Nation, 420; Chairman Springer on Banking, 57 Id., 404; "American Banking and Money Supply of the Future," 3 Annals of Am. Acad., 559; "Practical Suggestions for Currency Legislation," by various writers, 15 Rev. of Rev., 45; articles on "The Financial Muddle," by J. S. Norton, W. M. Springer and H. W. Cannon, 160 N. Am. Rev., 129.

CHAPTER XXIX.

PUBLIC DEBTS.

1. Borrowing leads to extravagance.
2. Increase of municipal indebtedness.
3. Why we should pay for posterity.
4. Society could not long exist on the principle of doing nothing for it.
5. Why another generation might oppose an expenditure incurred for its supposed benefit.
6. Amount of the national debt.
7. Coupon and registered bonds.
8. Legal-tender and other notes.
9. State indebtedness.
10. Town and county indebtedness.
11. Growth of city indebtedness.

1. We shall not detain our readers long in giving reasons justifying or opposing the policy of contracting public debts. This subject has been so well presented by Prof. Adams in his work on "Public Debts" that nothing need be added. In general, it may be said that the policy of public borrowing, except for a great necessity, like the maintenance of war, is most unwise. Happily, the Government, until the Civil War in 1861, was a small borrower, and the rapid reduction of the funded debt since 1866 is one of the chief glories of national administration. A policy of public borrowing is sure to lead to extravagance; this is a trite remark, and illustrations may be gathered everywhere.

2. The municipalities have been rapidly rolling up debts during the last thirty years. The objects for which loans have been contracted in most cases have been justified, though doubtless the amount thus raised has often been largely wasted. Our municipalities have grown

with great rapidity, and large expenditures have been needful to build sewers, to make streets and other permanent improvements. The money squandered in many places, collected by taxation, if wisely and honestly expended, would have been quite sufficient for all improvements. In other cases, to some extent, improvements might have been delayed; in still others, doubtless, more improvements pertaining to the health and convenience of the people would have been justifiable. It is a nice question what proportion of the burden ought to be borne by the present taxpayer, and how much can be justly laid to future generations for them to pay.

3. The old, hackneyed phrase is often uttered, "as posterity has done nothing for us, we should do nothing for posterity." This remark springs from the grossest ignorance and selfishness. We are born into a state in which very much has been done for us. Streets and sewers have been built, school houses, other public buildings, many things have been done that need not be mentioned. A society has been formed, the work of ages, of incessant conflict, and at heavy cost. Ought we not, in return for all the endowments from which we derive so much enjoyment and benefit, to do something for those who are to come after us? To grab and use all that we have inherited and shirk from doing anything for others is the highest conceivable form of selfishness.

4. Society could not long live on such a principle. Society holds together by virtue of reciprocal action; each one is doing something for others, either consciously or unconsciously; but the principle of grabbing everything and giving nothing to others, strikes at the heart of society. The State, therefore, is not justified in borrowing for all expenditures, of putting the burden on others while we are enjoying the present good of them. Since we have received much from the past, it is our duty to do much for the future; and the State should be very slow in burdening the future with obligations.

5. Again, the State should be slow for the reason that another generation might think differently concerning the worth of a benefit for which they are compelled by no action for their own to pay. Suppose, for example, a city to-day should build new works for supplying the people with gas, as New York contemplates doing. We are on the eve of great changes in the use of electricity. It may be that in a few years gas will be a thing of the past for lighting purposes, and yet, if a large sum is expended for constructing a gas plant, another generation must pay for it, though, perhaps, preferring electricity for lighting purposes as well as for power.

6. The indebtedness of the States at the close of the Civil War was very large, incurred chiefly to sustain the cause of the Union. Commendable progress has been made in its reduction and not much remains.

7. Towns and counties also contracted money loans for the same purpose. Some of them have expended considerable sums for highways and bridges and other needful purposes. The burden in some localities has been heavy, where numerous large streams have required the building of costly structures. Within the last thirty years some towns and counties have decreased their indebtedness, other have increased them.

8. The most common complaint concerning public indebtedness has been its growth in the large cities. These have spread so rapidly and have been so mismanaged that the burden of indebtedness has become enormous. Some of this indebtedness has been contracted for proper purposes; much, as every one knows, has been the consequence of circular movement whereby a few persons have succeeded in getting control and using the public machine for private ends. City government has been a kind of great mill in which the millers have collected the grain in the form of taxation, run it

through their mill and kept the flour, kindly giving back to the public the shorts.

9. Some cities have incurred enormous expenditures, counting on light taxation in consequence of their future growth. The city of Elizabeth, New Jersey, is a good illustration. Streets were laid out and built far beyond the lines of settlement, believing that persons would be attracted by the unusual facilities for comfortable living. But the plan was radically wrong. To pay the interest on the indebtedness high taxes were inevitable, repelling instead of drawing people, as the improvements were not an adequate return for their cost, and repudiation followed.

10. We need not repeat the story of municipal borrowing for unwise purposes—the building of expensive court-houses, city halls and other structures not justified either in the sight of the people, or by the needs of the places where they have been built. Nor need we repeat the story of public unwillingness to pay debts, and their contests with creditors to escape payment.

11. A few years ago many towns, cities and counties voted public credit to extend railway enterprise. Enormous sums were raised in this manner. Most of these enterprises have never paid public lenders, and in some cases the load has been so heavy that they have tried to repudiate it. Some of the newer constitutions have prohibited municipalities from making such loans; in some States the courts have taken action to save municipalities from plunging into excessive lending of this character.

CHAPTER XXX.

THE GOVERNMENT DEPOSITS.

1. The sub-treasuries.
2. Deposits in the national banks.
3. Shall the system be changed?
4. The Government ought to keep a reserve.
5. The excess of revenue might be deposited with the banks.
6. The amount that ought to be kept in the sub-treasuries may be easily determined.

1. The Government has a large amount of money, and different methods have been adopted for keeping it.[1] After the creation of the first United States bank in 1790, it was kept with that institution during its existence of twenty years. When the second United States Bank was organized in 1816, the same policy was adopted. In 1835 the deposits were withdrawn and kept with State institutions. After the failure of many of these, soon afterward, the independent treasury system was adopted. Nine assistant treasurers were appointed, who, after giving bonds for the faithful performance of their duties, were intrusted with the public moneys. The principal treasury, though not containing the largest amount, except of silver, is at Washington, under the direct charge of the treasurer. Besides this there are nine sub-treasuries, so called, in the cities of Boston, New York, Philadelphia, Baltimore, San Francisco, Chicago, New Orleans, St. Louis and Cincinnati. The assistant treasurers serve for four years, and receive annual salaries ranging from $4,000 to $8,000.

2. Most of the public moneys are now deposited with them for safe-keeping. At times, considerable sums col-

lected by internal revenue collectors have been deposited with the National banks. They are required to keep Government bonds, with the United States Treasurer as security for the full amount of deposits intrusted to their keeping.

3. The question has often been asked, Shall the public moneys be kept in this manner, or be deposited with the banks, they giving proper security? The principal objection to keeping deposits in the treasury is their withdrawal from business. At times, the amounts that flow into the treasury reservoir and remain there have been enough to startle those classes especially who are always looking for spooks, or for causes to frighten others. The crucial question is not very difficult—Shall the Government keep a reserve, or not? If it ought to keep one, then the proper place is its own vaults; for if its deposits were put in the custody of banks they would not long remain there if they could be used; and if they could not be, the banks would not want them. If they were used, of course they would no longer exist. It is very difficult to make some people believe that they cannot eat their cake and still keep it, and especially some members of the banking world. If a deposit is in use, in no sense can it any longer form part of a reserve. It is quite time to put this truth into operation. Now, if the Government is to keep a real reserve, this money may as well be kept in its own vaults as in those banks, for, to repeat, they have no use for it; indeed, would decline to act as custodian if they were obliged to keep it on hand to answer the demands of the Government. The question, then, assumes this form, Ought the Government to keep any reserve, or only a fixed sum, or varying sums at different times depending on the amount of payments that must be made?

4. That the Government ought to keep some reserve, must be obvious to all. No time need be spent in strengthening this assertion.

5. Any excess beyond its ordinary needs might be deposited in banks on receiving proper security, without danger of embarrassing the Government, and with the view of responding, as far as possible, to the demands of business. By such a policy, the operations of the Government would create no monetary disturbance.

6. Lastly, the amount kept by the Government might vary to some extent with its payments. As most of these are fixed—the interest on the debt, salaries and the like—it would be easy to determine how much ought to be reserved for these purposes, and how much could be permitted to run out of the treasury reservoir and flow into the banks.

337-P

[1]See Prof. David Kinley's History, Organization and Influence of the Independent Treasury. This work refers to some authorities; A. C. Gordon's Cong. Currency, Ch. 3, Independent Treasury System; H. G. Cannon's article N. Am. Rev., Feb., 1895; Money and the Sub-Treasury, 38 Banker's Mag., 321.

CHAPTER XXXI.

THE GOVERNMENT AND THE PACIFIC RAILROAD INDEBTEDNESS.

1. Description of the original system.
2. The system that was built.
3. The roads were built by construction companies.
4. The operations of the Credit Mobilier.
5. The amount of public subsidies.
6. The reimbursement to the government.
7. The Thurman act for creating a sinking fund.
8. Its operation.
9. Amount of indebtedness of the companies.
10. Plans proposed for paying it.
11. Sale of the roads.

1. For many years it was strongly urged that a railway ought to be built across the continent to the Pacific Ocean.[1] In 1862 a charter was finally granted to aid in the construction of a railroad and a telegraph line from the Missouri River to the Pacific Ocean, and to secure to the Government the use of the same for postal, military and other purposes. It was proposed to construct a main line from an initial point on the one hundredth meridian of west longitude between the south margin of the valley of the Republican River and the north margin of the valley of the Platte River, in the Territory of Nebraska, to the Pacific Coast near San Francisco, or the navigable waters of the Sacramento River. From the initial point two branches were to extend to Omaha and to Kansas City; a branch also has to extend to Sioux City from the initial point or from some point on the Omaha branch, while other branches were to be built at various places, but converging at no considerable distance to the

main line, westward. On the first plan is shown clearly what Congress intended to have built, and on the second the extent to which its intention was regarded in constructing this great enterprise.

2. The main line from Omaha to Sacramento was built with only a few changes, but the eastern line, as will be seen from the maps, varied considerably from the intention of Congress. The Kansas Pacific, instead of forming an eastern branch of the main line, was extended almost due west from Kansas City to Denver, and only in a technical way complied with the law by connecting with the Northern Pacific at Cheyenne. The Sioux City branch was built by the Sioux City & Pacific Railway Company, and joined the Union Pacific at Fremont. The Atchison branch extended far enough to get its subsidy for 100 miles, and then stopped. The unsubsidized Leavenworth and Platte River branches were built as designed by Congress.

3. This great system of railway was built by construction companies. They were not a new thing in the history of railroad operations, and since that time have been often formed to build railroads. The main line was built by two construction companies, one building the Central Pacific, which extended from Ogden to San Francisco, the other from Omaha to Ogden.

4. The eastern construction company was known as the Credit Mobilier. The company consisted of a body of men who owned the stock of the enterprise and sold the bonds issued by the Government, and also the bonds forming a prior lien, as will be hereafter explained. From the proceeds of these they built the road and put the remainder in their pockets as their profits. The scheme proved to be enormously profitable, as the cost of building the road was nothing like the amount of money granted by the Government together with the money accruing from the sale of the first mortgage bonds. To keep Congress silent and prevent an investigation,

Oakes Ames, president of the construction company, and an accomplished scoundrel, having faith in the magical properties of this stock, distributed some of it among members of Congress. Nor was he disappointed, for they kept silent until the road had been completed, the bonds had been sold and all the proceeds well squeezed out. Then, after the completion of the mischief, an investigation was made, the scandal was brought to light—by far the worst of any in our legislative history.

5. To aid the undertaking, the United States granted to several companies a right of way 400 feet wide, through the public land, the right to take material for construction purposes from adjacent public lands, and twenty sections of public land for each mile of railroad constructed, except coal and other mineral lands and lands already pre-empted or otherwise sold. Furthermore, as rapidly as the lines were completed in sections of twenty miles, bonds were to be issued to the companies by the United States, running thirty years, with interest at 6 per cent., to the extent of $16,000 for each mile east of the eastern base of the Rocky Mountains, and west of the western base of the Sierra Nevada Mountains, and $48,000 for each mile of the 150 west of the western base of the Rocky Mountains, and of the same number east of the western base of the Sierra Nevada, and $32,000 for each mile intervening between the two mountain sections of 150 miles. The total issue of bonds for the main line was not to exceed $50,000,000. No bonds were to be issued in aiding the construction of the Leavenworth or of the Platte River branch, while the Atchison branch was to be subsidized only to the extent of 100 miles of its line. The Government also authorized the companies to issue bonds for a similar amount, which would be a first mortgage on the railways. It was to take a second mortgage or lien on them for its advances; it was also provided that at least 5 per cent. of the net earnings of each bond-aided company should be annually

applied to extinguishing its debt to the United States, and one-half the compensation for services rendered to the Government. The companies were required to transmit dispatches, mail, troops, ammunitions and Government supplies at a reasonable compensation, and the Government was to be at all times preferred to private persons in the rendering of these services.

6. The main line from Omaha to Sacramento had hardly been completed when the interest question arose. The interest on the Government bonds was payable semi-annually, and the Government claimed that its payments of current interest ought to be reimbursed by the companies. The 5 per cent. of the net earnings and half-compensation for Government services, reserved as above mentioned, proved to be much less than the current interest, and, of course, unless this was paid by the company, the subsidy debt would increase. This question was finally decided by the Supreme Court of the United States. The companies were not required to pay the current interest, except to the extent of 5 per cent. of the net earnings and the half-compensation for Government services. But what were the net earnings? The company urged that in determining them the interest on bonded indebtedness, expenses of the land grant, and for improvements, new equipment and the Government's half-compensation should be deducted. The Supreme Court decided that the net earnings were to be determined by deducting from the gross earnings the ordinary expenses of organization and operation, expenditures made for bona-fide improvements and paid out of the earnings, but that no deduction should be made of interest on bonds or the half-compensation of the Government.

7. This decision was so disappointing that it gave rise to a law known as the Thurman act, passed in 1878. This provided that a sinking fund should be established into which should be paid the half-compensation for Government services formerly payable to the companies, be-

sides such an additional sum as added to the whole compensation for Government services, and 5 per cent. of the net earnings, would make a sum equal to 25 per cent. of the net earnings. It was, however, further provided that the sum thus going into the sinking fund should not annually exceed $850,000 for the Union Pacific and $1,200,000 for the Central Pacific. The half-compensation originally reserved for the United States was still to be applied directly to the liquidation of the current interest. The sinking fund was to be in charge of the Secretary of the Treasury, and invested in United States bonds, and the semi-annual interest on them was to be similarly invested. The sinking fund was to be held for the benefit of all creditors of the two companies. The net earnings were to be determined by deducting from the gross earnings the necessary expenditures of operation and repairs and interest on the first mortgage bonds, but not the interest on any other indebtedness. All sums due to the United States or paid into the sinking fund were to be a lien on the property of the companies, and no dividends were to be paid as long as they and the interest on the first mortgage bonds remained unpaid. This fund was declared constitutional by the Supreme Court of the United States.

8. The maximum payments into the sinking fund, however, were not attained in consequence of the low net earnings resulting from competition, commercial depressions and other causes.

9. Again, some of the funds invested in bonds bore a high premium, while other portions were not invested. Second, the accumulation of unliquidated current interest steadily increased after 1878. The amount of the indebtedness of the two companies on June 30, 1896, was $100,282,208.[4]

10. Three ways were proposed for dealing with the companies: First, the realization at once of as much of the debt as possible, and severing the relations between

the Government and the railroads. In other words, to get as much as possible for the Government's indebtedness, either in cash or properly secured bonds, and retire immediately from all connection with these corporations. The second plan was to extend the time for paying the companies' debts, and maintain essentially the present relations, with the exception of realizing in the future a larger amount from its bonds. As a part of this plan it was proposed that new bonds should be issued bearing 2 and 2½ per cent. interest, which would reduce the burden to be borne by the companies. The third plan was for the United States to assume the burden and own and operate the railroads.

11. Each of these plans had friends and enemies. Happily, notwithstanding the enormously excessive cost of the roads, the Union Pacific was sold for its cost, including interest, and likewise the Central Pacific. The purchasers of the Union Pacific paid in cash, the purchasers of the other paid in bonds bearing 2½ per cent. interest, one-tenth of the amount being redeemable annually. But on the Denver branch, which was also sold to the purchasers of the Union Pacific, there was a loss. The people have much cause for rejoicing over their escape from a much greater loss, which, for many years, seemed inevitable. In this, as in so many other matters, the country has been aided by an unexpected turn in its favor.[5]

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[1]For a more complete account, see article by J. P. Davis, 8 Annals of Am. Acad. 259, which contains references to the most important reports of Congress. See also Ann. Rep. of Com. of Railroads, and article by H. K. White, 2 Jour. of Polit. Econ., 424.

[4]See Ann. Rep. Secy. of Interior, 1896, 68. See this report for details of the indebtedness of the railroads, credits for services rendered, etc.

[5]For a brief account of the mode of settlement, see the reports of the U. S. Attorney-General for 1898 and 1899.

APPENDIX.

A. DISBURSEMENTS.

For the fiscal year ending June 30, 1900:

LEGISLATIVE.

	Salaries.	Ordinary expenses.	Public works.	Miscellaneous.	Unusual and extraordinary.	Total.
Senate	$1,065,815.87	$199,694.92	.....	$22,505.00	.....	$1,288,015.79
House of Representatives	2,829,551.34	137,480.23	.....	14,468.98	.....	2,981,500.55
Legislative Miscellaneous	32,411.16	66,602.03	.....	49,137.14	.....	148,150.33
Public Printer	15,185.00	4,571,026.11	$144,000.00	.....	.....	4,730,211.11
Library of Congress	157,456.14	145,311.15	4,100.00	.....	.....	306,867.29
Botanic Garden	13,892.75	6,100.00	5,998.04	.....	.....	25,990.79
Court of Claims	38,782.43	3,999.85	.....	448,698.79	.....	491,481.07
Apparent expenses	4,153,094.69	5,130,214.29	154,098.04	534,809.91	.....	9,972,216.93
Actual expenses	4,153,094.69	4,976,130.16	154,098.04	534,809.91	.....	9,818,132.80

EXECUTIVE PROPER.

Executive Office	95,417.72	14,998.62	.....	.....	.....	110,416.34
Civil Service Commission	90,898.62	6,509.99	.....	.....	.....	97,408.61
Apparent expenses	186,316.34	21,508.61	.....	.....	.....	207,824.95
Actual expenses	186,316.34	20,256.86	.....	.....	.....	206,573.20

STATE DEPARTMENT.

Salaries(etc.	129,499.54	11,781.68	.....	.....	.....	141,371.22
Foreign intercourse	1,066,529.83	523,958.47	.....	1,619,377.31	$4,937.04	3,214,802.65
Apparent expenses	1,196,029.37	535,830.15	.....	1,619,377.31	4,937.04	3,356,173.87
Actual expenses	541,657.41	385,658.90	.....	1,409,582.75	4,937.04	2,341,836.10

TREASURY DEPARTMENT.

Salaries, etc	129,499.54	11,871.68	.....	4,642.65	.....	3,277,786.67
Independent Treasury	440,414.97	239,752.13	.....	2,644.75	.....	682,811.85
Mints and Assay Offices	944,531.48	535,116.77	.....	.....	.....	1,479,648.25
Territorial Governments	82,855.98	7,067.97	.....	.....	.....	89,923.95
Internal Revenue	4,330,135.57	661,541.84	.....	.....	.....	4,991,677.41
Customs Service	66,900.17	19,809,271.69	.....	41,829.48	.....	19,918,001.34
Marine Hospital Service	.....	982,495.77	.....	.....	.....	982,495.77
Life-Saving Service	.....	1,579,127.73	.....	.....	.....	1,579,127.73
Lighthouse Establishment	739,322.42	2,478,110.79	339,407.49	.....	.....	3,556,840.70
Coast and Geodetic Survey	247,764.33	270,059.91	51.12	10,280.69	.....	528,156.05

Steamboat Inspection Service	268,549.60	47,591.25	.....	.....	.....	316,140.85
Bureau of Engrav'g & Pr't'g	1,547,285.40	259,884.19	.....	.....	.....	1,807,169.59
Public Buildings	.....	.....	6,346,657.85	.....	.....	6,346,657.85
Treasury Miscellaneous	1,211,201.12	2,861,505.51	68,249.17	2,856,281.25	40,334,222.41	47,331,459.46
District of Columbia	2,467,656.83	4,358,370.98	239,874.33	42,679.43	.....	7,108,581.57
Apparent expenses	15,477,666.77	34,231,991.65	6,994,239.96	2,958,358.25	40,334,222.41	99,996,479.04
Actual expenses	14,416,918.40	16,930,165.28	6,975,158.95	2,956,562.95	39,157,247.37	80,436,052.95

WAR DEPARTMENT.

Salaries, etc.	1,998,330.65	248,546.21	388,966.73	43,856.98	.....	2,679,700.57
Public buildings and grounds in Washington	51,349.93	492.96	144,017.43	.....	.....	195,860.32
Pay Department	31,349,146.46	366,643.25	.....	.....	1,176,088.25	32,891,877.96
Commissary Department	.....	10,407,631.76	.....	.....	.....	10,407,631.76
Quartermaster's Department.	.....	48,010,210.48	.....	.....	224,399.44	48,234,609.92
Medical Department	.....	2,308,738.20	.....	.....	528,855.89	2,837,594.09
Ordnance Department	.....	3,000,387.23	7,790,538.90	.....	.....	10,790,926.13
Engineer Department:						
Forts, etc.	10,434.91	23,376.72	522,121.46	.....	.....	555,933.09
Improving harbors	.....	.....	5,975,169.31	.....	.....	5,975,169.31
Improving rivers	.....	.....	12,743,695.51	.....	.....	12,743,695.51
Military Academy	.....	89,133.15	110,769.51	.....	.....	199,902.66
War miscellaneous	.....	627,327.66	977,234.50	15,037.34	8,517,827.85	10,137,427.35
Apparent expenses	33,409,261.95	65,082,487.62	28,652,513.35	58,894.32	10,447,171.43	137,650,328.67
Actual expenses	33,409,261.95	64,535,917.96	28,628,944.25	58,894.32	10,199,244.81	136,832,263.29

NAVY DEPARTMENT.

Salaries, etc.	324,990.97	92,222.76	.....	8,020 93	.....	425,234.66
Naval Academy	107,207.41	94,036.91	199,447.99	.....	.....	400,692.31
Marine Corps	1,259,914.41	536,950.40	2,006.80	.....	.....	1,798,871.61
Increase of the Navy	.....	14,398,254.94	.....	.....	.....	14,398,254.94
Bureau of Yards and Docks	.....	603,712.21	3,873,047.00	.....	.....	4,476,759.21
Bureau of Equipment	.....	3,329,324.20	.....	.....	.....	3,329,324.20
Bureau of Navigation	.....	269,134.03	149,483.21	.....	.....	418,617.24
Bureau of Constr't'n & Rep'r	.....	5,617,718.86	163,526.95	.....	.....	5,781,245.81
Bureau of Ordnance	.....	3,659,203.82	.....	.....	.....	3,659,203.82
Bureau of Steam Engineer'g.	.....	2,404,735.97	126,813.74	.....	.....	2,531,549.71
Bureau of Supplies & Acc'ts	.....	3,518,421.26	.....	.....	.....	3,518,421.26
Bureau of Med. & Surgery	.....	286,798.93	.....	.....	.....	286,798.93
Navy Miscellaneous	11,863,099.11	1,354,576.33	.....	278,192.45	1,857,470.79	15,353,338.68
Apparent expenses	13,555,211.90	36,165,090.62	4,514,325.69	286,213.38	1,857,470.79	56,378,312.38
Actual expenses	13,535,626.38	35,278,369.50	4,491,419.98	101,638.15	1,857,470.79	55,264,524.80

DISBURSEMENTS.—Continued.

INTERIOR DEPARTMENT.

	Salaries.	Ordinary expenses.	Public works.	Miscellaneous.	Unusual and extraordinary.	Total.
Salaries, etc.	4,279,115.89	488,056.93	.....	.....	.....	4,767,172.82
Public lands	695,722.49	1,560,079.72	.....	357,862.01	.....	2,613,664.22
Beneficiaries	.....	.....	62,196.77	431,804.23	.....	494,001.00
Miscellaneous, civil	.....	.....	118,148.12	2,172,685.28	.....	2,290,833.40
Pensions	.....	.....	.....	.....	140,877,316.02	140,877,316.02
Indian affairs:						
Current and contingent expenses	337,622.39	280,865.00	.....	.....	.....	618,487.39
Fulfilling treaty stipulations & treaty supports.	.....	2,410,310.75	.....	.....	.....	2,410,310.75
Miscellaneous supports	.....	586,474.49	.....	.....	.....	586,474.49
Trust funds	.....	1,809,787.92	.....	.....	.....	1,809,787.92
Incidental expenses of Indian service	.....	62,801.82	.....	.....	.....	62,801.82
Support of Indian schools	.....	2,734,245.06	.....	.....	.....	2,734,245.06
Miscellaneous expenses of Indian service	.....	1,952,999.33	.....	.....	.....	1,952,999.33
Apparent expenses	5,312,460.77	11,885,621.02	180,344.89	2,962,351.52	140,877,316.02	161,218,094.22
Actual expenses	3,985,863.82	10,611,777.46	180,344.89	2,738,778.01	140,877,313.02	158,394,077.20

POSTOFFICE DEPARTMENT.

Salaries, etc.	815,630.31	95,027.68	.....	17,900.00	.....	928,557.99
Postal service	.....	7,829,754.97	.....	2,863.00	.....	7,832,617.97
Apparent expenses	815,630.31	7,924,782.65	.....	20,763.00	.....	8,761,175.96
Actual expenses	815,630.31	7,924,782.65	.....	20,763.00	.....	8,761,175.96

DEPARTMENT OF AGRICULTURE.

Salaries and miscellaneous	1,476,785.01	2,066,709.67	25,000.00	57,355.86	.....	3,625,850.54
Apparent expenses	1,476,785.01	2,066,709.67	25,000.00	57,355.86	.....	3,625,850.54
Actual expenses	1,476,785.01	2,059,501.62	25,000.00	57,355.86	.....	3,618,642.49

DEPARTMENT OF LABOR.

Salaries and miscellaneous	101,832.95	71,176.79	.....	.....	.....	173,009.74
Apparent expenses	101,832.95	71,176.79	.....	.....	.....	173,009.74
Actual expenses	101,832.95	71,159.83	.....	.....	.....	172,992.78

DEPARTMENT OF JUSTICE.						
Salaries and miscellaneous...	290,715.08	181,157.09	40,249.57	14,611.29	.....	436,733.03
Apparent expenses.....	290,715.08	181,157.09	40,249.57	14,611.29	.....	436,733.03
Actual expenses.....	290,715.08	179,871.26	40,249.57	14,611.29	.....	435,447.20
JUDICIAL.						
Salaries and miscellaneous...	2,721,321.75	2,967,708.79	197,772.73	50,789.11	.....	5,937,952.38
Apparent expenses.....	2,721,321.75	2,967,708.79	197,772.73	50,789.11	.....	5,937,952.38
Actual expenses.....	2,721,321.75	2,679,787.28	197,772.73	50,789.11	.....	5,649,670.87
Total apparent expenses.	78,469,145.01	166,401,460.83	40,758,544.23	8,563,523.95	193,521,117.69	487,713,791.71
Total actual expenses....	75,407,842.21	145,790,560.64	40,692,988.41	7,943,785.35	192,096,213.03	461,931,389.64

EXPENDITURES MADE FROM PERMANENT AND INDEFINITE APPROPRIATIONS.—

STATE DEPARTMENT.			
Salaries, diplomatic officers, while receiving instructions and in transit.....		$9,438.26	
Salaries, consular officers, while receiving instructions and in transit.....		9,496.23	
Pay of consular officers for services to American vessels and seamen.....		15,202.11	
Refunding penalties or charges erroneously exacted.....		330.06	
			$34,466.66
TREASURY DEPARTMENT.			
Interest on the public debt.....	$40,158,413.27		
Interest on bonds issued to Racific railroads.....	1,920.00		
		40,160,333.27	
Redemption of stamps (internal revenue).....		129,112.01	
Allowance or drawback (internal revenue).....		75,344.63	
Refunding taxes illegally collected (internal revenue).....		329,963.41	
Refunding money erroneously received (internal revenue).....		40.50	
Expenses of Smithsonian Institution.....		54,720.00	
Expenses of loan, act of March 14, 1900.....		10,160.25	
Contingent expenses, national currency (reimbursable), Treasurer's office.....		30,360.32	
Expenses of Treasury notes, act of July 14, 1890.....		16,978.43	
Coinage of silver bullion.....		285,012.53	
Storage and handling of silver bullion.....		41,750.00	
Recoinage of silver coins.....		47,306.57	
Collecting revenue from customs, for 1900.....	$7,446,593.09		
Collecting revenue from customs, for 1899 and prior years.....	21,099.39		
		7,467,692.48	
Repayment to importers excess of deposits (customs).....		4,687,795.16	
Debentures or drawbacks, bounties or allowances (customs).....		5,699,415.88	
Proceeds of goods seized and sold (customs).....		20.25	
Services to American vessels (customs).....		25,099.15	

EXPENDITURES MADE FROM PERMANENT AND INDEFINITE APPROPRIATIONS.—Continued.

TREASURY DEPARTMENT—Continued.

Unclaimed merchandise (customs)	2,091.67	
Refunding moneys erroneously received and covered (customs)	25.25	
Refunding penalties or charges erroneously exacted (customs)	2,341.51	
Refunding tonnage taxes and light dues on Cuban vessels	19,719.00	
Expenses of regulating immigration (including $12,409.96 for the Bureau of Immigration)	302,415.96	
Salaries, Shipping Service	55,426.76	
Marine Hospital Service (including $27,774.18 for the office of the Supervising Surgeon-General)	823,058.28	
Salaries, Steamboat Inspection Service (including $10,539.97 for the office of the Supervising Inspector-General)	279,089.57	
Contingent expenses, Steamboat Inspection Service	47,591.25	
Trust fund interest for support of free schools in South Carolina	1,795.00	
Refunding to National Banking Associations excess of duty	.30	
Board of arbitration on interstate commerce controversies	31.17	
		60,594,690.56

WAR DEPARTMENT.

Arming and equipping the militia	367,034.30	
Transportation of the Army and its supplies, Pacific railroads	531,173.58	
Trusses for disabled soldiers	8,314.69	
Ordnance material, proceeds of sales	64,917.26	
Support of Soldiers' Home	247,926.62	
Soldiers' Home, permanent fund	317,000.00	
Soldiers' Home, interest account	77,977.62	
Operating and care of canals and other works of navigation	851,629.84	
Removing sunken vessels or craft obstructing or endangering navigation	37,345.39	
Constructing jetties and other works at South Pass, Mississippi River	125,000.00	
Removing obstructions in the Mississippi River	88,923.15	
Operating snag and dredge boats on Upper Mississippi River	25,000.00	
Operating snagboats on Ohio River	34,889.85	
Examinations and surveys at South Pass, Mississippi River	9,878.45	
Gauging the waters of Lower Mississippi and its tributaries	6,000.00	
Bounty to Fifteenth and Sixteenth Missouri Cavalry volunteers	137.56	
Reimbursement to States and Territories expenses of raising troops for war with Spain	1,131,881.04	
Reimbursement for bringing home remains of officers and others, Army	1,051.85	
Refunding customs revenue collected from Porto Rico	545,000.00	
Extra pay, Regular Army, war with Spain	24,696.55	
Extra pay to volunteers, war with Spain	915,624.82	
Transportation of volunteers, war with Spain	37,673.00	
		5,449,075.57

NAVY DEPARTMENT.

Pay of the Navy, deposit fund	184,575.23	
Ordnance material, proceeds of sales	31,780.04	
Bounty for destruction of enemies' vessels	77.52	
Prize money to captors, Spanish war	17,244.89	
Prize money to captors	1,863.43	
Naval hospital fund	116,074.64	
Navy transportation, Pacific railroads	26,535.54	
Extra pay to officers and men who served in the Mexican war (Navy)	3,065.17	
Relief of sufferers by wreck of United States steamers at Apia, Samoa	312.00	
Reimbursement for bringing home remains of officers and others, Navy and Marine Corps	351.12	
Relief of sufferers by destruction of United States steamship Maine	5,733.00	
Clothing and small stores fund	650,439.21	
		1,038,051.79

INTERIOR DEPARTMENT.

Deposits by individuals for surveying public lands	111,265.81	
Repayment for lands erroneously sold	37,164.89	
Protection and improvement of Hot Springs, Ark	22,559.18	
Fees on certain Indian allotments	409.66	
Colleges for agriculture and the mechanic arts	1,200,000.00	
Surveying within land grants	3,511.57	
Proceeds of town sites for schools in Oklahoma	3,293.00	
Indemnity for swamp lands purchased by individuals	37,127.31	
Five, three, and two per cent. funds of the net proceeds of sales of public lands in the States	43,107.41	
Revenues, Yellowstone National Park	206.96	
Maryland School for the Blind	6,900.00	
Miscellaneous trust funds of Indian tribes	1,809,787.92	
Indian moneys, proceeds of labor	673,544.86	
Civilization of the Sioux	41,345.82	
		3,995,224.39

POSTOFFICE DEPARTMENT.

Mail transportation, Pacific railroads	598,976.18	
Deficiency in postal revenues	7,230,778.79	
		7,829,754.97

JUDICIAL.

Salaries, retired judges	54,324.66	
Salaries and expenses, reporter of the Supreme Court	7,500.00	
Salaries, Court of Private Land Claims (for deputy clerks)	1,600.00	
Revising criminal and penal laws of the United States	21,715.04	
		85,139.70

Total expenditures from permanent and indefinite appropriations $79,026,403.64

B. PUBLIC BUILDINGS.

Appropriations for Public Buildings in the States from the Beginning to 1899.*

States.	Number of buildings.	Amount appropriated.	Per capita, census of 1890.
Alabama	5	$1,138,604.75	$0.75
Arkansas	4	688,396.87	.61
California	11	6,852,882.97	5.67
Colorado	4	1,534,784.59	3.63
Connecticut	5	1,692,459.63	2.26
Delaware	3	440,709.46	2.61
Florida	6	795,028.51	2.03
Georgia	7	1,689,912.30	.91
Idaho	2	275,551.62	3.26
Illinois	16	8,514,539.66	2.22
Indiana	9	1,789,420.79	.81
Iowa	10	2,002,592.49	1.04
Kansas	7	1,070,651.42	.75
Kentucky	9	2,335,618.06	1.25
Louisiana	10	6,137,754.88	5.48
Maine	18	2,401,620.87	3.63
Maryland	6	3,621,722.31	3.47
Massachusetts	17	9,991,191.97	4.46
Michigan	11	3,185,789.79	1.52
Minnesota	5	2,471,991.23	1.89
Mississippi	5	457,661.65	.35
Missouri	9	9,713,594.71	3.62
Montana	2	361,325.38	2.73
Nebraska	6	2,200,835.14	2.07
Nevada	2	580,782.61	12.68
New Hampshire	3	712,320.04	1.89
New Jersey	7	1,716,080.05	1.18
New Mexico	1	70,124.78	.45
New York	26	24,068,728.42	4.01
North Carolina	12	1,129,067.05	.69
North Dakota	1	100,000.00	.54
Ohio	14	8,259,641.77	2.22
Oregon	2	1,243,176.28	3.96
Pennsylvania	20	13,926,852.04	2.64
Rhode Island	5	509,333.15	1.18
South Carolina	5	4,243,941.21	3.59
South Dakota	1	165,000.00	.50
Tennessee	8	2,007,293.94	1.13
Texas	12	2,064,110.76	.92
Utah	1	75,000.00	.36
Vermont	5	605,184.09	1.82
Virginia	10	1,896,487.77	1.14
Washington	2	282,297.25	.80
West Virginia	5	760,179.54	.99
Wisconsin	6	2,976,054.13	1.76
Wyoming	1	250,000.00	4.12

*Taken from Congressional Record, March 2, 1899.

C. PENSIONS.

NO. I. DISBURSEMENTS FOR PENSIONS.

Fiscal year.	Army.	Navy.	Number of pensioners on rolls.
1866	$15,158,598.64	$291,951.24	126,722
1867	20,552,948.47	231,841.22	155,474
1868	22,811,183.75	290,325.61	169,643
1869	28,168,323.34	344,923.93	187,963
1870	29,043,237.00	308,251.78	198,686
1871	28,081,542.41	437,250.21	207,495
1872	29,276,921.02	475,825.79	232,189
1873	26,502,528.96	479,534.93	238,411
1874	29,603,159.24	603,619.75	236,241
1875	28,727,104.76	543,300.00	234,821
1876	27,411,309.53	524,900.00	232,137
1877	27,659,461.72	523,360.00	232,104
1878	26,251,725.91	534,283.53	223,998
1879	33,109,339.92	555,089.00	242,755
1880	55,901,670.42	787,558.66	250,802
1881	49,419,905.35	1,163,500.00	268,830
1882	53,328,192.05	984,980.00	285,697
1883	59,468,610.70	958,963.11	303,658
1884	56,945,115.25	967,272.22	322,756
1885	64,222,275.34	949,661.78	345,125
1886	63,034,642.90	1,056,500.00	365,783
1887	72,464,236.69	1,288,760.39	406,007
1888	77,712,789.27	1,237,712.40	452,557
1889	86,996,502.15	1,846,218.43	489,725
1890	103,809,250.39	2,285,000.00	537,944
1891	114,744,750.83	2,567,939.67	676,160
1892	135,914,611.76	3,479,535.35	876,068
1893	153,045,460.94	3,861,177.00	966,012
1894	136,495,965.61	3,490,760.56	969,544
1895	136,156,808.35	3,650,980.43	970,524
1896	134,632,175.88	3,582,999.10	970,678
1897	136,313,914.64	3,635,802.71	976,014
1898	140,924,348.71	3,727,531.09	993,714
1899	134,671,258.68	3,683,794.27	991,519
1900	134,700,597.24	3,761,533.41	993,529
Total	$2,473,260,467.82	$55,112,637.57	.....

NO. 2. TOTAL SURVIVORS IN 1943.

The following tables, prepared by Gen. F. C. Ainsworth, Chief of the Record of Pension Office of the War Department, show the number of survivors who will become 62 years of age until all have reached that age:

Showing the probable total of survivors of the war of the rebellion (excluding deserters) on June 30 of each year from 1890 to 1910, inclusive, and at the close of each quinquennial period thereafter until none shall remain.

Year.	Survivors.	Year.	Survivors.
1890	1,285,471	1904	858,002
1891	1,261,232	1905	820,687
1892	1,236,076	1906	782,722
1893	1,209,968	1907	744,196
1894	1,182,889	1908	705,197
1895	1,154,810	1909	665,832
1896	1,125,725	1910	626,231
1897	1,095,628	1915	429,727
1898	1,064,524	1920	251,727
1899	1,032,418	1925	116,073
1900	999,339	1930	37,033
1901	965,313	1935	6,296
1902	930,380	1940	340
1903	894,585	1945	0

NO. 3. SURVIVORS BECOMING 62 YEARS OF AGE.

Showing the probable number, June 30, 1890, of the survivors of the war of the rebellion (excluding deserters), the number who will be 62 years of age or over on that date; also the number who will attain 62 years of age after 1890, with the year in which they will reach that age.

Probable number of survivors in 1890 1,285,471

Probable number of survivors in 1890 62 years of age or over 149,531

Will live to be 62 years old.		Will live to be 62 years old.	
In year—	No. of men.	In year—	No. of men.
1891	20,817	1901	62,414
1892	22,692	1902	70,799
1893	24,891	1903	80,234
1894	27,480	1904	90,733
1895	30,530	1905	106,043
1896	34,073	1906	97,836
1897	38,203	1907	44,747
1898	43,025	1908	5,672
1899	48,611	1909	820
1900	55,042		

D. APPROPRIATIONS MADE BY CONGRESS FOR EXPOSITIONS.

Philadelphia, 1876	$2,149,250
Paris, 1878	190,000
Sydney and Melbourne, 1879 and 1880	28,000
Berlin Fishing Exhibition, 1880	20,000
London Fishing Exhibition, 1883	70,000
World's Industrial and Cotton Centennial Exposition at New Orleans, 1884	1,650,000
Cincinnati, 1884	10,000
Louisville, 1884	10,000
Barcelona, Spain, 1888	28,380
Brussels, 1888	30,000
Melbourne, 1888	50,000
Paris, 1889	250,000
Ohio Valley and Central States at Cincinnati, 1888	147,750
Madrid, 1892	25,000
Atlanta, 1895	200,000
Chicago, 1893	5,359,719
Brussels, 1897	5,000
Nashville, 1897	130,000
Brussels, 1897	5,000
Nashville, 1897	130,000
Omaha, 1897	200,000
Paris, 1898	25,000
Paris, 1899	1,150,000
Bergen, 1898	20,000
World's Columbian, Chicago, 1898	598
Philadelphia, 1899	350,000
Toledo, 1900	500,000
Buffalo, 1900	500,000
St. Louis, 1901	10,000
St. Louis, 1901	5,000,000
	$18,243,698

E. INDIAN SCHOOLS.

Annual appropriations made by the Government since the fiscal year 1877 for the support of Indian schools:

Year.	Appropriation.	Per cent. increase.	Year.	Appropriation.	Per cent. increase.
1877	$20,000	...	1888	$1,179,916	a2.6
1878	30,000	50	1889	1,348,015	14
1879	60,000	100	1890	1,364,568	1
1880	75,000	25	1891	1,842,770	35
1881	75,000	...	1892	2,291,650	24.3
1882	135,000	80	1893	2,315,612	.9
1883	487,200	260	1894	2,243,497	a3.5
1884	675,200	38	1895	2,060,695	a8.87
1885	992,800	47	1896	2,056,515	a .2
1886	1,100,065	10	1897	2,517,265	22.45
1887	1,211,415	10	1898	2,638,390	....
			1899	2,936,080	....
			1900	2,734,245	....

a Decrease.

INDIAN SCHOOLS—CONTINUED.

Amounts set apart for education of Indians in schools under private control for the fiscal years 1889 to 1900, inclusive.

	1889.	1890.	1891.	1892.	1893.	1894.	1895.	1896.	1897.	1898.	1899.	1900.
	$	$	$	$	$	$	$	$	$	$	$	$
Roman Catholic	347,672	356,957	363,349	394,756	375,845	389,745	359,215	308,471	198,228	156,754	116,862	57,642
Presbyterian	41,824	47,650	44,850	44,310	30,090	36,340	.....	.....	.....	.....	.....	.....
Congregational	29,310	28,459	27,271	29,146	25,736	10,825	.....	.....	.....	.....	.....	.....
Episcopal	18,700	24,876	29,910	23,220	4,860	7,020	7,020	2,160	.....	.....	.....	.....
Friends	23,383	23,383	24,743	24,743	10,020	10,020	10,020	.....	.....	.....	.....	.....
Mennonite	3,125	4,375	4,375	4,375	3,750	3,750	3,750	3,125	.....	.....	.....	.....
Unitarian	5,400	5,400	5,400	5,400	5,400	5,400	5,400	.....	.....	.....	.....	.....
Lutheran, Wittenberg, Wis.	4,050	7,560	9,180	16,200	15,120	15,120	15,120	.....	.....	.....	.....	.....
Methodist	2,725	9,940	6,700	13,980	.....	.....	.....	600	.....	.....	.....	.....
Mrs. L. H. Daggett.	.....	.....	.....	.....	6,480	.....	.....	.....	.....	.....	.....	.....
Miss Howard	275	600	1,000	2,000	2,500	3,000	3,000	3,000	3,500	.....	.....	.....
Special appropriation for Lincoln Institution	33,400	33,400	33,400	33,400	33,400	33,400	33,400	33,400	33,400	33,400	33,400	33,400
Special appropriation for Hampton Institute	20,040	20,040	20,040	20,040	20,040	20,040	20,040	20,040	20,040	20,040	20,040	20,040
Woman's National Indian Association..	.....	.....	.....	.....	.....	2,040	4,320	.....	.....	.....	.....	.....
Point Iroquois, Mich..	.....	.....	.....	.....	.....	900	600	.....	600	600	.....	.....
Plum Creek, Leslie, S. Dak.	.....	.....	.....	.....	.....	.....	1,620	.....	.....	.....	.....	.....
John Roberts	.....	.....	.....	.....	.....	.....	.....	.....	2,160	2,160	2,160	2,160
Totals	529,905	562,640	570,218	611,570	533,241	537,600	463,505	370,796	257,928	212,957	172,462	113,242

F* WAR BUDGETS OF VARIOUS ARMIES.

	Population by last census	Latest obtainable army budget	Total enlisted strength, peace footing	Cost of maintaining one enlisted man for one year	Cost of army per capita of population	Latest obtainable naval budget	Cost of navy per capita of population	Total war budget	Cost of army and navy combined per capita of population
Austria-Hungary	44,901,036	$67,564,446	368,062	$183.86	$1.50	$7,028,167	$0.15	$74,592,613	$1.66
France	38,517,975	128,959,064	589,541	218.74	3.34	61,238,478	1.58	190,197,542	4.92
German Empire	52,246,589	156,127,743	562,266	277.85	1.98	32,419,602	.62	188,547,345	3.60
Italy	31,479,217	43,920,132	216,720	202.65	1.39	18,455,111	.58	62,375,243	1.97
Russia	129,211,118	99,927,797	835,143	119.65	.77	48,132,220	.37	148,060,017	1.14
United States, not including cost of past wars	76,295,220	152,068,100	100,000	1,520.00	1.99	80,034,335	1.04	233,102,435	3.03
United States, including cost of past wars	76,295,220	306,762,392	100,000	3,067.00	4.02	80,056,135	1.04	386,818,527	5.06

*Taken from 34 Cong. Record, 2709.

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INDEX.

A

ACCOUNTS—See TREASURY DEPARTMENT.

AGRICULTURE—Expenditures for, 85; Distribution of Seeds, 86; Agricultural Experiments, 86.

APPROPRIATIONS—National, Are Permanent or Annual, 131; How Permanent Ones Should Be Limited, 132; History and Titles of Appropriation Bills, 132; Deficiency Appropriations, 133; What Is Included in Civil Sundry Bills, 134; How They Are Prepared, 134-136; How Appropriations Are Secured, 136; Action of Conference Committees, 138; Rule Governing a Committee in Rejecting Items, 138; Unexpended Balances, 134; Slight Interest Taken in, 140; "Riders," 141; How Bills Ought to Be Prepared and Reported, 141; State Appropriation Bills, 142-144; Appropriations for Claims, 143; Vetoes, 144; Auditor, His Duties, 32-33. See EXPENDITURE.

B

BALANCES—Unexpended, 139; Re-appropriation of, 140.

BANKING—Constitutionality of a National Bank, 249; Object of National Banking System, 249; Success of, 250; Investment of Banks in Government Bonds, 250; The Reserve, 251; Object of, 251; How a Reserve Kept with Another Bank Is Used, 252; Call Loans, 252; A Reserve Kept with Another Bank Is Not a Reserve, 254; Need of an Emergency Circulation, 254; State Bank Issues, 255; Function of a Bank Is to Exchange Credit with Borrowers, 255; Why State Banks Should Not Be Permitted to Issue Notes, 256; Safety-Fund System, 258; Danger of Automatic System, 259; Local Character of State Note Circulation, 259; What Ought to Be Done if State Bank Notes Are Authorized, 260; Supervision of State Bank Issues, 260; Mode of Providing an Emergency Circulation, 261; Bank of Berlin Plan, 262; Effect of Establishing a Plan, 263; A Permanent Increase of the Currency Is No Remedy, 263; Need of a Larger Monetary Supply, 264; Establishing of Small Banks, 265; Branch Banks, 265; Use of Produce Certificates, 266; Dangers in Using Them, 267.

BANKER—He Is Not a Financier, 1.

BANKS—Expense for Supervising, 121; Examinations, 121.

BONDS—Of Disbursing Clerk, 24.

BOUNTIES—95.

C

CENSUS—92-94.

CHANDLER—His Administration of the Navy Department, 35.

CIVIL SERVICE—9, 25; Rotation System, 26.

CLAIMS—How Audited and Paid, 24-35; Nature of, Against the Government, 68; Congress Is Not a Proper Tribunal to Determine Them, 68; Court of Claims, 69; Pension Claims, 69; French Spoliation Claims, 69; Civil War Claims, 69; Indian Depredation Claims, 69; How Congress Should Deal with Them, 70; Influences operating on Members, 71. See TREASURY DEPARTMENT.

COAST SURVEY—Cost of Soundings by, 35.

COINAGE—See MONEY.

CONTRACTS—For Supplies, How Made, 28; Continuous Contracts, 28; For Carrying the Mails, 76.

CONTROLLER—His Duties, 33.

D

DEFENSE AND INTERCOURSE—Expenditure for Sea-Coast, 8, 46; and in General for, 17; Salaries of Secretary of State and Assistants, 38; and of Ambassadors, 39; of Consuls, 40; Need of Foreign Representatives, 40; Fee System, 41; Number and Cost of Army, 41; Enlistment, 42; Supplies for Army, 42; Need of a Navy, 43; Cost of Ships in Active Service and Reserve, 43; Bureau of Navy, 44; Should Be Combined, 44; Expenditure of Navy, 44; Bureau of Construction and Repairs, 44; Bureau of Supplies and Accounts, 45; Number in Navy, 45; Mode of Conducting Navy Yards, 46; Construction of Vessels, 48; Cost of Public and Private Construction Compared, 48.

DEPARTMENTS OF GOVERNMENT—24; How Their Officers Are Classified, 25; Number Confirmed by the Senate, 25; Head Must Render an Annual Report, 26; Authority of, to Make Contracts, 28.

DISBURSING OFFICERS—Duties of, 24, 30.

DISTRICT OF COLUMBIA—Expenditure for, 73; Government of, 73; How Appropriations for, Are Made, 73; Amount of, 74.

E

EDUCATION—Expenditure for, 94, 112-114; School Funds, 186.

EXPRESS BUSINESS—12.

EXHIBITIONS—98. Appendix D.

EXPENDITURE—Importance of Study of, 2; Is More General Than Ever Before, 2; Mode of Measuring, 7; Greatest Increase for Pensions, 7; for Rivers and Harbors, 8; for Employees, 8-10; Classification of, 10; Difference Between an Expenditure for a Necessity and Public Welfare, 11; Distinction Between Questionable and Justifiable, 11; Necessity a Better Test Than Public Welfare, 12; for the Support of Labor, 13; as a Mode of Equalizing Wealth, 14, 17; as a Mode of Using Wealth, 15; Limitation of, 16, 17; for Foreign Intercourse, 17; Rule for Limiting, 19; Moral Effects of, 19; Salaries, 24, 38; President, 24; Authorized by Congress, 27; Discretion of Department in, 27; All Expenditure Is Made Through Treasury Department, 29; for a Single Purpose Should Be Made by a Single Department, 34; Tendency of Bureaus to Expand, 35; for Maintaining Health and Life, 66. See STATE EXPENDITURE.

F

FACTORIES—Inspection of, 128.

FINANCE—Public and Private, Defined, 1, 2; How the Subject Is Divided, 2.

FINANCE COMPANIES—1.

FISHERIES—Bureau of, 85.

FOREIGN INTERCOURSE—Expenditure for, 17.

FORTS—See DEFENSE.

G

GARFIELD—Importance of Revenue and Expenditure in a Government, 3.

GEOLOGICAL SURVEY—Expense of, 36.

GOVERNMENT—Functions of, 5; Public Welfare as a Basis of Legislation, 5, 6; Expansion of Functions, 6; Nature of Expenditures for Local, 11.

GOVERNMENT DEPOSITS—History of Sub-Treasury System, 274; Government Deposits in the National Banks, 274; Need of a Government Reserve, 275.

GOVERNMENT—Printing and Publications, 83, 84.

H

HARBORS—See RIVERS AND HARBORS.
HEALTH LAWS—108, 111.

I

IMPORTS—Taxation of, 160; Different Opinions Concerning, 168; Effect of, on Prices, 162; Amount of Protection Furnished by the Government, 162, 163; Good Results from Combined Production, 164; Discontent of the Unprotected, 164; What Foreign Action May Justify the Government in Doing, 165; Reciprocity Treaties, 165; Increasing Difficulties in Making a Tariff Law, 166; Collection of, 168; Division of the Country into Districts, 168; Compensation of Collectors, 169; Abuse of Fees, 169; Number Employed, 169; Revenue Collected in Different Places, 169; Duties of Collector, 169; of Naval Officer, 170; of Surveyor, 171; of Appraiser, 172; of Board of General Appraisers, 172; of Board of General Examiners, 172; When Duties Are Refunded, 173; Appeals from Appraisers, 173; Liquidations, 173, 174; Revenues That Are Lost Through Ignorance or Fraud, 174; Devices of Importers to Beat the Government, 174; Specific and Ad Valorem Duties, 175; Custom Ports That Ought to Be Closed, 175. See REVENUE.

INCOME TAXATION—See REVENUE.

INFORMATION—For a Special Class, 103.

INDIANS—Expenditure for, 63, 64; Policy Toward, 63; Conduct of Indian Agents, 63; Purchases of Land from, 179.

INSPECTION LAWS—66; Steamboat Inspection, 67.

INSURANCE COMPANIES—Supervision of, 124.

INTERNAL REVENUE—Collected from What Sources, 177; History of, 177; Opposition of Protectionists to, 178; Number of Collectors Employed, 178; Cost of Collecting, 178.

J

JAMES, E. J.—Definition of Finance, 3.

JUSTICE—Expenditure for, 60; Superiority of Federal System, 61; Salaries, 61; Courts, 61; Marshals, 62.

JUSTIFIABLE—Expenditures, 76-87; Postoffice, 76-79; Telegraph Service, 79; Public Buildings, 80; Government Printing, 83, 84; Patent Office, 84; Bureau of Fisheries, 85; Agriculture, 85; Life-Saving Services, 87; National Museum, 87. See EXPENDITURE.

L

LABOR BUREAU—126.

LABOR—Department of, 94.

LAND—Revenue from Sale of, 179; Purchases of, 179; Purchases from Indians, 179; Receipts from Sales, 181; Expenditures, 181; Vacant Lands, 181; Policy of the Government Concerning, 181; Grants to Individuals, 181; McGarrahan Claim, 182; Grants to Railroad Companies, 182; Frauds in Surveying and Selling, 182; the Timber-Stealing Industry, 183; When All the Land Will Be Taken, 183.

LEGISLATION—Cost of, 57; Salaries of Legislators, Etc., 57; Clerks, 57; Special Investigations, 58; Cost of Funerals. 57.

LIBRARIES—127.

LIFE-SAVING SERVICE—87.

M

MINES—Inspection of, 128.

MONEY—Definition of, 215; Is a Medium of Exchange, 217; Need of Something Possessing a Certain Value, 219; What Are Prices, 219; How Quantity Is Affected by Rapidity of Circulation, 220; How Banks Quicken the Circulation of Money, 220; Effect of Credit, 221; Use of Checks and Bills of Exchange, 221; Credit Is a Measure of Superior Civilization, 226; Effect of Using Money Possessing Unstable Value, 226; How Prices Are Affected by the Withdrawal of Credit, 226; Various Ways in Which Money Affects Prices, 227; Appreciation of Gold, 228; Should the Purchasing Power of Money Be Lessened, 229; Effect of Excessive Production, 230; Causes Tending to Diminish the Value of Gold, 231; What Is Absolute Payment, 232; Use of Silver, 232; Government Notes, 232; Legal Tender Notes, 232; Silver Certificates, 233, 240; Treasury Notes, 233; National Bank Notes, 233; Gold Certificates, 234; Notes Serve Essentially the Same Purposes as Money, 234; Early Coinage, 234; Legal and Market Relation Between Gold and Silver, 236; Attempts at Regulation, 236; Exportation of Coins, 236; Reduction of Gold Pieces, 237; Purchase of Bullion, 237; Suspension of Specie Payments, 238; Resumption of, 246; Revision of Coinage Laws, 238; Coinage of Silver Dollar Authorized in 1878, 239; Purchase of Silver, 240, 241, 242; Government's Option in Making Payments, 240; Gold Reserve for Redeeming Notes, 241; Seigniorage, 241, 242; The Charge for Refining Gold into Bars, 243; Different Kinds of Money and Substitutes, 243; Legal Tender Qualities of Notes, 244; Amount and Withdrawal of Legal Tender Notes, 245.

N

National University—105, 106.
National Museum—87.
National Surveys—In States, 98.
Neckar—On Public Expenditure, 16.

P

Pacific Railroads—Various Lines, 277, 278; How Built; 278; Credit Mobilier, 278; Government Grants, 279; Interest on the Government Bonds, 280; Thurman Act for Paying the Government, 280; Payments into the Sinking Fund, 281; Mode of Settlement, 281, 282.
Patent Office—84.
Pensions—Party Politics in Pension Legislation, 7; Increase of Expenditure for, 7; Reasons for Granting, 51; Activity of Pension Agents, 53; Expenditure for, 54; Loans to Pay Pensions, 54; Military Hospitals, 55. See Appendix C.
Postoffice—Expenditure for, 76; Contracts for Carrying the Mails, 76; Star Service, 77; Subsidies, 78; Printing of Postage Stamps, 79; Classification and Salaries of Postmasters, 79.
Postal Savings Banks—95.
Public Buildings—Expenditure for, 80; How They Are Made, 80, 83. See Appendix B.
Public Debts—Borrowing Leads to Extravagance, 270; Increase of Municipal Indebtedness, 270; Why We Should Do Something for Posterity, 271; Growth of Indebtedness in Large Cities, 272.

Q

Questionable Expenditure—Census, 92-94; Education, 94; Department of Labor, 94; Postal Savings Banks, 95; Bounties, 95; Subsidies, 96; Railway Grants, 96; National Surveys in States, 98; Exhibitions, 98; Reservoirs, 103; Special Commissions, 104; National University, 105, 106. See Expenditure.

R

Railroads—Supervision of, 126.
Railway Grants—96.
Reports—Heads of Departments Must Render Annual, 26; Worth of, 26, 27.
Reservoirs—103.

REVENUE—National, from Miscellaneous Sources, 184; State Revenue from Funds, 186; School Funds, 186; Sinking Funds, 187; Chaotic Condition of State Tax Systems, 188; Taxation of Real Estate, 189; Personal Property, 190; Licenses, 190, 201; Collateral Inheritance Tax, 191; Graduation of the Tax, 192, 212; Taxation of Corporations, 193; Mortgages, 195; Proper Ground of Taxation, 195; Conflict Between State and Municipality Concerning Taxation, 198; Income as a Measure of Ability, 203; Fairness of the Tax, 204; It Is a Tax on Thrift, 205; So Is Any Tax, 205; It Is Inquisitorial, 205; How It Should Be Levied, 206; Income Tax System of South Carolina, 207; Similarity of a Tax on Income and on Property, 207; Concealment of Income, 208; Taxation of Income of Corporations, 208; Effects of Imposing an Income Tax, 210; Taxation of Income of Railways in Different States, 210; Co-operation of State and Municipality, 210; Advantages of the System, 211; National Income Tax of 1861, 212; Legality of a Federal Income Tax, 212; Difficulties in Imposing the Tax, 213. See REVENUE.

RIVERS AND HARBORS—Expenditure for, 8, 12; How Appropriations Are Made, 13; Reasons for and Against, 99; How They Should Be Limited, 102; Their Local and Personal Character, 101.

S

SALARIES—Of President, 24; of Heads of Departments, 38; of Assistants, 38; of Postmasters, 79; of Collectors, 169; of Internal Revenue Collectors, 178. See Appendix A.

SEIGNIORAGE—241.

SHERMAN ACT—240.

SPECIAL COMMISSIONS—104.

STATE EXPENDITURE—Line Between It and National, 108; Health Laws, 108, 111; Inspection of Food, 109; Defense, 109; National Appropriations to States for Defense, 109; Justice, 110; Appeals, 110; Increasing Litigation, 111; Legislation, 111; Expenses for Contingent Legislation, 111; Education, 112-114; Limit Between State and Local Expenditure, 113; Care of the Insane, 117; Hospitals, 118; Questionable State Expenditure, 121; Supervision of Banks, 121; Worth of Examinations, 121; Supervision of Insurance Companies, 124; Supervision of Railroads, 126; Labor Bureaus, 126; Libraries, 127; Inspection of Mines and Factories, 128; Rules to Limit State Supervision, 128; Public Police, 129. See EXPENDITURE.

SUBSIDIES—95.

SURVEYS—Of Land, 98.

T

TAXATION—Definition of a Tax, 147; Purpose of, 148; Classification, 149, 151; What Is a Direct Tax, 149; Economic Distinction Between a Direct and Indirect Tax, 150; Tax on Polls. 151; Occupations, 152; Income from Wealth, 152; Wealth Itself, 152; Who Should Pay Taxes, 153; By Whom They Are Paid, 154; Collection of, 156; Incidence of Taxation, 157-159; Unequal Operation of, 157-159.

TREASURY DEPARTMENT—Persons Employed in, 29; All Departments Get Money from, 29; Officers of, 30; Duties of, 30; How Accounts Are Examined and Settled, 30-34; Most Are Paid Before Adjusting Them, 34.

VETOES—Of Appropriations, 144.